

2007 ANNUAL REPORT

PUBLIC SERVICE COMMISSION of Maryland

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



**Martin O'Malley
Governor**

**Anthony G. Brown
Lt. Governor**

To The Governor and General Assembly of Maryland:

Pursuant to Section 2-122 of the *Public Utility Companies Article*, the Report of the Public Service Commission for the year ending December 31, 2007, is respectfully submitted.

Table of Contents

- I. Membership of the Commission**
- II. Overview of the Commission**
 - A. General Work of the Commission**
 - B. Summary of 2007 Commission Actions**
 - C. Organizational Structure**
- III. Division Reports**
 - A. Office of the Executive Secretary**
 - B. Office of External Relations**
 - C. Hearing Examiner Division**
 - D. Office of the Executive Director**
 - 1. Accounting Division**
 - 2. Economic and Policy Analysis**
 - 3. Energy Resources and Markets Division**
 - 4. Staff Counsel Division**
 - 5. Transportation Division**
 - 7. Telecommunications Division**
 - 8. Engineering Division**
 - E. Office of the General Counsel**
 - 1. Summary of Litigation**
 - 2. Proceedings before the Federal Communications Commission and the Federal Energy Regulatory Commission**

IV. Major Activities and Special Projects

- A. Electric Competition Activity - Case No. 8738**
- B. Renewable Energy Portfolio Standard Program Year 2007**
- C. Regulations - New and Amended**
- D. Transmission Planning in PJM**
- E. Maryland Healthy Air Act**
- F. Regional Greenhouse Gas Initiative (RGGI)**
- G. Electric Universal Service Program – Case No. 8903**
- H. Utility Service Protection Program**

V. Other Issues

- A. Broadened Ownership Act**
- B. Energy Efficiency and Conservation**

VI. Major Cases and Decisions

VII. FY 2007 Receipts and Disbursements

I. MEMBERSHIP OF THE COMMISSION

	Term Expires
Steven B. Larsen, Chairman	June 30, 2008
Harold D. Williams, Commissioner	June 30, 2012
Allen M. Freifeld, Commissioner	June 30, 2009
Susanne Brogan, Commission	June 30, 2011
Lawrence Brenner, Commissioner	June 30, 2010

II. OVERVIEW OF THE COMMISSION

A. 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, telephone, water, and sewage disposal companies. Also subject to the jurisdiction of the Commission are 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 PSC's jurisdiction also extends to taxicabs operating in the City of Baltimore, Baltimore County, Cumberland, and Hagerstown.

The categories of regulated public service companies and other regulated or licensed entities are listed below:

- ◆ electric utilities;
- ◆ gas utilities;
- ◆ combination gas and electric utilities;
- ◆ electric suppliers;
- ◆ gas suppliers;
- ◆ telecommunications companies;
- ◆ water, and water and sewerage companies;
- ◆ bay pilots;

- ◆ docking masters;
- ◆ passenger motor vehicle carriers;
- ◆ railroad companies;
- ◆ taxicab companies;
- ◆ hazardous liquid pipelines; and,
- ◆ other public service companies.

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 also 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 much broader authority for supervision and regulation of activities of public service companies. In addition to setting rates, 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.

B. SUMMARY OF COMMISSION ACTIONS IN 2007

Under Senate Bill 400 effective July 1, 2007, the Commission was tasked with submitting an interim report to the Governor and the General Assembly, by December 1, 2007, identifying issues relating to re-regulation of the electric supply market, including

discussion of costs and benefits to residential and small commercial customers of returning to a regulated electric supply market. Further, the Commission was tasked with initiating new proceedings and conducting an analysis of the availability of adequate transmission and generation facilities serving the State, as well as encouraging the procurement and implementation of cost-effective energy efficiency and conservation programs and services.

During 2007, in response to these taskings and in addition to the general work of the Commission, the Commission initiated multiple proceedings to examine, among other things:

- Electric utilities Standard Offer Service Procurement Process;
- Electric Universal Service Program funding and operation;
- The reliability of the State's electric supply; and,
- Options for new generation in the State, including long term contracts

These proceedings involved thirteen (13) days of contested case proceedings, three (3) days of quasi-legislative proceedings, testimony and comments from fifty-nine (59) witnesses and experts, and more than 1, 200 pages of written testimony and reports.

The Commission also completed two (2) interim reports requested by the General Assembly on reregulation options and stranded costs and decommissioning liability. As permitted by the legislation, the Commission retained the legal and economic consulting services of Kay Scholer LLP and Levitan Associates, Inc. to assist it in the preparation of the interim reports.

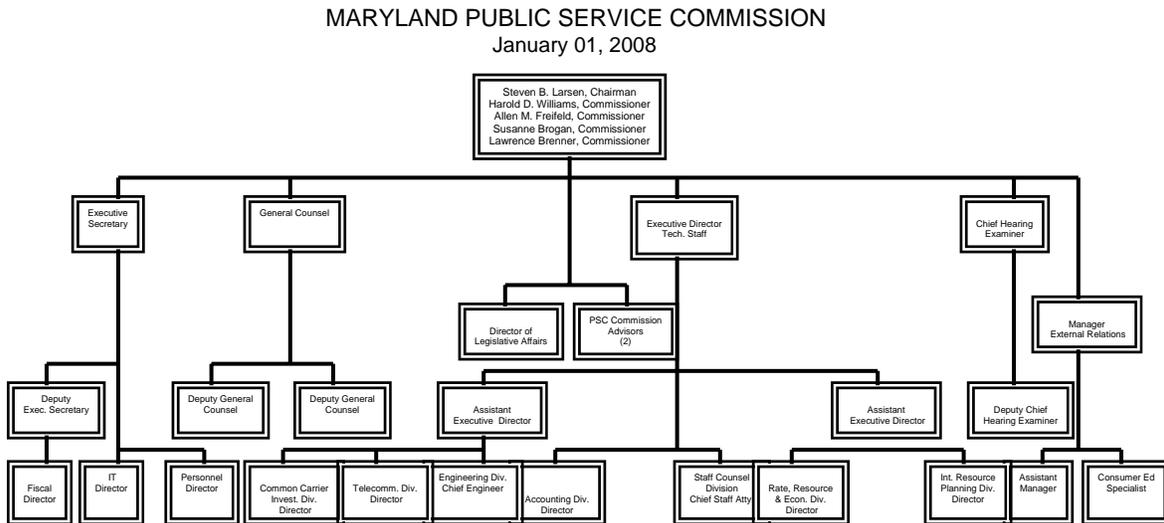
In order to encourage the implementation of energy efficiency and conservation, the Commission directed all electric companies to file comprehensive energy efficiency, conservation, and demand response programs. Review of these filings is ongoing in 2008, but the Commission approved several so-called "fast track" conservation programs for investor-owned utilities in 2007 and a demand response program proposed by Baltimore Gas and Electric Company.

In its other areas of regulation, the Commission initiated a Show Case proceeding against Verizon Maryland Inc. as to the company's compliance with the Commission's service quality standards. The Commission's Office of External Relations' records reflected that there was a substantial increase in 2007 of customer complaints against Verizon Maryland Inc. for missed appointments and extended service outage. The Commission's investigation is continuing in 2008.

Finally, the Commission was active in proceedings before the Federal Energy Regulatory Commission, including preparation of a complaint that was filed in January 2008 to stop wholesale market practices that result in overcharges to Maryland customers. The Commission continues to review other federal policies and the regional transmission organization's policies on wholesale market rules and will take action when necessary to prevent the affect of wholesale market rules from adversely affecting the State's ratepayers.

C. ORGANIZATIONAL STRUCTURE

During 2007, the Commission made some organizational changes, including the addition of two Commission advisor positions and a director of legislative affairs position.



III. DIVISION REPORTS

A. OFFICE OF THE EXECUTIVE SECRETARY

The Executive Secretary is responsible for the daily operations of the Commission and for keeping the records of the Commission, including a record of all proceedings, filed documents, orders, regulation decisions, dockets, and files. The Executive Secretary is an author of, and the official signatory to, minutes, decisions and orders of the Commission that are not signed by the Commission directly. The Executive Secretary is also a member of a team of policy advisors to the Commission.

The Office of Executive Secretary (“OES”) is responsible for the Commission’s case management, expert services procurement, order preparation, payphone service provider administration, purchasing and procurement, regulation development and coordination, tariff maintenance, the Equal Employment Opportunity Program, operations, fiscal and budget management, and the Commission’s computer system, including databases and the official web site and the intranet site. The OES divisions are:

- (1) Administrative Division, which includes the following sections:
 - a. Case Management. 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 and required compliance with detailed access procedures. During 2007, this Section established 275 new dockets and processed 2,269 case items. This Section is also responsible for archiving the formal dockets based on the record retention policies of the Commission.
 - b. Document Management. 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 2007, this Section scheduled 43 Commission meetings to consider the Agenda and there were 541 items considered at these meetings. Additionally, this Section is responsible for docketing public conferences held by the Commission. There were four administrative docket public conferences initiated and held in 1007. This Section also processed 4,606 filings, including 1,140 memoranda.

- c. Regulation Management. This Section is responsible for providing expert drafting consultation, establishing and managing the Commission's rule making docket, and coordinating the adoption process with the Secretary of State's Division of State Documents. During 2007, this Section managed six rule making dockets that resulted in final adoption of regulation changes to COMAR Title 20 – Public Service Commission, and 13 rule making dockets that remain active.
- d. Operations. This Section is responsible for obtaining and maintaining the telecommunications and the fleet utilized by the Commission as well as being the liaison to accomplish building maintenance, repairs and construction needs of the Commission. In addition, this Section is responsible for the Equal Employment Opportunity Program.

(2) Fiscal Division, which includes the following sections:

- a. Fiscal and Budget Management. This Section manages the financial aspects of the daily operations of the Commission. The operating budget totaled \$13,007,897 in Special Funds for fiscal year ending June 30, 2007. Included within the normal State functions are two unique governmental accounting responsibilities. The first function allocates the Commission's cost of operation to the various public service companies subject to the Commission's jurisdiction. The second function allocates the budget associated with the Department of Natural Resources' Power Plant Research Program to electric companies distributing electricity to retail customers within the in

Maryland. This Section also administers the financial accountability of the Pipeline Safety Program and the Hazardous Liquid Pipeline Safety Program, which are partially reimbursed by the Federal Department of Transportation, by maintaining all associated financial records consistent with federal program rules, regulations, and guidelines requiring additional record keeping.

- b. Purchasing and Procurement Management. This Section is responsible for expert services procurement and all other procurements required by the Commission as well as the overall control of supplies and equipment. This Section is also responsible for agency forms management and record retention management. This Section's staff maintained and distributed the fixed and disposable assets, maintained all related records, purchased all necessary supplies and equipment, and coordinated all equipment maintenance. As of June 30, 2007, this Section was maintaining approximately 221 items of disposable supplies and materials totaling \$39,804 and fixed assets totaling \$1,748,127.

(3) Informational Technologies Division (IT). This Division functions as the technical staff for the Commission's computer system. IT is responsible for computer hardware and software selection, installation, administration, training and maintenance. IT creates and maintains the Commission's Internet website. In 2007, IT (a) migrated the Commission to: Windows 2003 Server and Microsoft Outlook/Exchange 2007; (b) increased the ISP bandwidth to 4Mbps; (c) changed the Network Backbone to Catalyst 6000 switching fabric; and, (d) incorporated service to Treo/Smartphones into the Commission's computer system.

(4) Personnel Division. The Personnel Section is responsible for day-to-day personnel transactions of the Commission, which include recruitment, testing, hiring, retirements and terminations along with the associated records management. In addition, this Section is responsible for payroll, timekeeping, and state and federal employment reports. The Section serves as a liaison between the State's Department of Budget and Management, the Commission, and the Commission's employees. During 2007, this

Section provided the Commission managers and personnel with advice, direction, and guidance on personnel matters; performance evaluations; salary issues under the Agency's independent salary plan; and retirement and training.

B. 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 investigators act as mediators in order to resolve disputes between consumers and utility companies based on applicable laws and tariffs. In 2007, the OER investigated 5,950 consumer complaints. Out of those complaints 2,412 involved gas and electric issues, while 2,052 were telecommunication complaints, 22 complaints related to water companies, and 525 complaints involved issues outside of the PSC's jurisdiction. The majority of complaints against gas and electric local distributions companies and suppliers concerned billing issues, followed by service quality issues. Most telecommunication disputes involved billing disputes and installation or repair problems, followed by slamming concerns. In addition, OER staff responded to 14,008 general inquiries and fulfilled 1,662 requests for information concerning the Commission, utilities and suppliers. OER responded to 1,280 requests for payment plans or extensions.

In addition, OER is responsible for media relations and responding to information requests from legislators, state and federal regulatory agencies and providing consumer education information. OER also continued its focus on consumer education, including efforts related to electric restructuring. As a result, OER responded to 6,554 inquiries regarding electric restructuring and attended numerous community outreach efforts on electric choice and a variety of other issues. Representatives from OER also participated in several conferences on low-income utility assistance programs and hosted delegations of industry and regulatory groups from several foreign nations. OER staff members work proactively to provide the public with timely and useful utility related information based on the feedback received from consumers.

C. 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, consumer as well as other 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 also matters regarding Baltimore City taxicab drivers. While most Hearing Examiner activity concerns delegated cases from the Commission, 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 in the matters referred to the Division and file Proposed Orders, which contain findings of fact and conclusions of law. During 2007, 257 cases were delegated by the Commission to the Hearing Examiner Division, 220 relating to transportation matters of which 74 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.

D. OFFICE OF THE EXECUTIVE DIRECTOR

The Technical Staff under the direction of the Executive Director and two assistants consists of the following divisions: Accounting Investigations; Economics and

Policy Analysis; Telecommunications; Energy Resources and Markets; Transportation; Engineering (collectively, “Technical Staff”); and, Staff Counsel.

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 as part of the Commission’s regulatory oversight activities. The Executive Director supervises the 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.

1. Accounting Investigations Division

The Accounting Investigations Division is responsible for auditing utility books and records and providing expertise on a variety accounting, taxation and financial issues. The Division’s primary functions include developing utility revenue requirements, auditing fuel costs, auditing the application of rates and charges assessed by utilities, monitoring utility earnings, examining the effectiveness of cost allocations, analyzing financial integrity of alternative suppliers seeking licenses to provide service, and assisting other Divisions and state agencies. Historically, the Division has also been responsible for project management of Commission-ordered utility management audits.

Division personnel provide expertise and guidance in the form of expert testimony, formal comments on utility filings, independent analyses on specific topics, advisory services and responses to surveys or other communication with the Commission. The Division keeps up to date with the most recent changes in accounting pronouncements and tax law, and must be able to apply its expertise to electric, gas, telecommunications, water, wastewater, maritime pilots and bridges.

During 2007, the Accounting Investigations Division’s responsibilities included conducting audits of utility fuel programs, evaluating utility base rates, and providing appropriate analysis of utility filings and rate initiatives. The Division also performed its first ever audit of the operations of the Washington Metropolitan Area Transit Commission. Division personnel provided expert testimony and recommendations relating to the performance of ongoing audits of 14 utility fuel programs and provided

appropriate analysis and comment with respect to 71 filings submitted by utilities. In addition, Division personnel participated in the following formal proceedings during 2007:

	<u>Docket No.</u>
Chesapeake Utilities Corporation	CN 9062
Choptank Electric Cooperative, Inc.	CN 9082
Potomac Electric Power Company	CN 9092
Delmarva Power and Light Company	CN 9093
Baltimore Gas and Electric Company	CN 9096
Mountain Hill Water Company	CN 9097
Maryland-American Water Company	CN 9101
Washington Gas Light Company	CN 9103
Washington Gas Light Company	CN 9104
Southern Maryland Electric Cooperative, Inc.	CN 9106
Transfer of Carpenter's Point Water	CN 9112
Pivotal Utility Holdings d/b/a Elkton Gas	CN 9126

2. Economics and Policy Analysis Division

The Economics and Policy Analysis Division conducts economic, financial and policy analyses relevant to the regulation of public utilities. The Division's output generally constitutes recommendations to the Commission, but also includes publication of industry status reports and responses to inquiries from elected officials, media representatives, and members of the public and industry stakeholders. In addition, the Division assists the Commission's Office of External Relations in the resolution of consumer complaints.

The Division's recommendations to the Commission focuses on retail competition policy and implementation related to restructuring in the gas and electric utility industries; rate of return on equity and capital structure pricing structure and design; low income customer issues; consumer protections; consumer education; codes of conduct; mergers, debt and equity issuances; 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.

As part of rate proceedings in the electric, gas and water industries, the Division's work lies in three main areas: Rate Design, the setting of retail prices to recover the cost (as annual revenue) of providing service to a specific class (e.g. residential) of customers; Cost of Service Studies, the classification of utility operating costs and plant investments and the allocation of those items to the customer classes that cause them; and, Cost of Capital, the financial analysis that determines the appropriate return to allow on a utility's plant investment given the returns observed from similar companies in the utility sector.

In addition to traditional rate-of-return expertise, the Division maintains technical and analytical professionals whose function is to identify and analyze emerging issues in Maryland's nascent retail energy markets. Division analysts research methods of electricity and gas procurement, retail energy market models, energy and natural resource price trends, and other areas that reflect characteristics of electricity and natural gas costs. The Division's analysts prepare and present this information in reports, comments on proposed legislation, written and oral testimony, proposed regulations and public presentations.

During 2007, the Division's work included expert testimony and/or policy recommendations in 20 formal and 88 informal proceedings before the Commission, some of which are listed below:

	<u>Docket Nos.</u>
<u>Rates:</u>	
Choptank Electric Cooperative	9082
Potomac Electric Power Company	9092
Delmarva Power & Light Company	9093
Washington Gas Light Company	9104
Southern Maryland Electric Cooperative	9106
Maryland American Water Company	9101
Washington Gas Light Company (Hexane Costs)	9035
Southern Maryland Electric Cooperative (Line Extension Rates)	9115
Chesapeake Utilities Corporation	9062
<u>Restructuring:</u>	
Type II Standard Offer Service	9056
Type I Standard Offer Service Solicitations	9064
Allegheny Power (Rate Stabilization Plan)	9091
Implementation of SB 1	9073
Baltimore Gas & Electric Company (Rate Stabilization Plan)	9099
Standard Offer Service Procurement	9117

<u>Electric Reliability:</u> Electricity Planning Conference	PC9
<u>Conservation and Energy Efficiency:</u> Demand Side Management	9111
<u>Gas Procurement Policy:</u> Columbia Gas of Maryland, Inc.	8952
<u>Consumer Protection:</u> Consumer Protection Regulations Electric Universal Service Program	RM17 8903

3. Energy Resources and Markets Division

The Energy Resources and Markets Division (ERMD), formerly known as the Integrated Resources Planning Division, is responsible for monitoring developments in the energy markets as they affect Maryland and promoting Commission policies that accomplish more robust and competitive energy markets, including at PJM Interconnection, LLC (PJM). But because energy supply in Maryland is purchased through competitive auctions, the Division does not “plan” what is the best mix of energy supplies and method of delivery.

ERMD (and its predecessor) was established in March 1993 to provide economic analysis of the long-range plans for reliably meeting Maryland customers’ electricity and natural gas energy demands. Division members have analytical and/or oversight responsibilities on a wide range of subjects including: regional power supply and transmission planning through participation in PJM working groups and committees; oversight of the Standard Offer Service (SOS) competitive solicitations; developments in the wholesale energy markets focusing on prices and availability; Maryland’s renewable energy portfolio standard (RPS); utility-sponsored energy efficiency and conservation programs; certification of retail natural gas and electricity suppliers; and, applications for small generator exemptions to the CPCN process.

During 2007 ERMD was directly responsible or involved in several significant initiatives including:

- Preparing the “Ten-Year Plan (2007-2016) of Electric Companies in Maryland.”

- Preparing the “Renewable Energy Portfolio Standard Report of 2008.”
- Monitoring wholesale electricity prices in Maryland, including spot prices as measured by locational marginal prices. ERMD staff prepared a data request that the Commission submitted to the PJM Market Monitoring Unit concerning Maryland-specific issues such as transmission congestion identified in PJM’s *2007 State of the Market Report*.
- Participating in the PJM planning processes to put in place a new long-term transmission planning protocol addressing both reliability and market efficiency.
- Active participation in several PJM committees and working groups including the Transmission Expansion Advisory Committee (TEAC), the Markets and Reliability Committee (MRC), the Planning Committee, the Market Implementation Committee, the Members Committee, the Demand Response Working Group, the Credit Working Group, and the Regional Planning Process Working Group.
- Implementing the Maryland Renewable Energy Portfolio Standard (RPS). Year 2006 was the first compliance year for the Maryland RPS, and the initial results are available for inclusion in the RPS Annual Report of 2008.
- Monitoring the SOS procurement processes to ensure they were conducted according to codified procedures consistent with the Maryland restructuring law. ERMD continued to work with electricity and natural gas suppliers to bring retail choice to the residential and small commercial markets.
- Providing testimony in Commission regulatory proceedings, including the investigation of SOS service for residential and small commercial customers (Case No. 9117) and the investigation into BGE’s rate stabilization plan and factors impacting wholesale electricity prices (Case No. 9099) .
- Participating in technical working groups on utility-sponsored energy efficiency and conservation programs, collectively known as demand side management (DSM) programs.
- Monitoring, and where appropriate, participating in initiatives of the PJM, the Federal Energy Regulatory Commission (FERC), and the Organization of PJM States (OPSI).

- Participating in National Association of Regulatory Utilities Commissioners (NARUC) activities, the Electricity Committee. The Director of ERMD is a member of the Electricity Staff Subcommittee.

4. Staff Counsel Division

The Staff Counsel Division directs and coordinates the preparation of Technical 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*, the Code of Maryland Regulations, and utility tariffs. 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 (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 2007, 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 Healthy Air Act modifications of generating stations, various energy efficiency efforts, participation in the review of methods for procurement of standard offer service, and continued licensing of competitive suppliers.

5. Transportation Division

The Transportation Division enforces the laws and regulations of the 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 (total 1,000), intrastate for-hire railroads, as well as taxicabs in Baltimore City, Baltimore County, Cumberland and Hagerstown (total 1,477). 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 (total 7,500). The

Transportation Division monitors the safety of vehicles operated (total 6,700), 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 2007, the Transportation Division strengthened its inspection program and increased efficiency by the addition of ruggedized mobile computers used by five common carrier inspectors in the field for on-site recording of inspection data and electronic transmission of that information to the Commission's databases and to the Federal Motor Carrier Safety Administration's Safety and Fitness Electronic Records (SAFER) System. SAFER provides carrier safety data and related services to industry and the public via the Internet.

The Division's strong focus on enforcement in 2007 was aided by the use of Internet and other media advertising by for-hire transportation services to identify carriers operating without required Commission authority. In addition, mobile laptop computers were assigned to field investigators to provide immediate access to data related to subjects of investigations. Field investigators also conducted joint enforcement efforts with local law enforcement officials and with Motor Vehicle Administration Investigators to take action against violators of licensing and insurance regulations.

Administratively, a significant efficiency improvement resulted from the implementation of new electronic reporting of FBI criminal history background checks to the Division. This advancement reduced the receipt time for receiving the background checks from weeks to a few days, allowing faster processing of applications for taxi permits and for-hire driver's licenses. Staff also continues to develop, with the Commission's Information Technology staff, projects designed to streamline processes through automation, electronic filings by the industry, and better intra-agency communication among the Commission's internal databases.

In 2007, Division leaders also participated in state, regional, federal and international regulatory group meetings and conferences and served as guest speakers at several local industry and community functions.

6. Telecommunications Division

The Telecommunications Division assists the Commission in regulating the delivery of wholesale and retail telecommunications services in the state of Maryland. The Division's output generally constitutes recommendations to the Commission, but also includes responses to inquiries from elected officials, media representatives, and members of the public and industry stakeholders. The Division's analyses and recommendations to the Commission may appear as expert testimony in formal proceedings, special topical studies requested by the Commission, formal comments on other filings made with the Commission, and comments on proposed legislation, proposed regulations and public presentations.

The Division reviews applications for authority to provide services 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 carriers, and develops policy recommendations on a wide range of issues for the Commission's consideration.

The Commission's Telecommunications Staff takes an active role in mediating disputes between telecommunications service providers and intervenes in bill payment disputes between telecommunications companies to ensure that customers are seamlessly migrated to another carrier with no loss in service. In addition, the Division monitors the quality of service provided by telecommunications service providers, the administration of telephone numbering resources for the State, and administers the certification of all payphone providers in the state.

During 2007, the Division reviewed 441 tariff filings, rate revisions, new service offerings and related matters. The Commission authorized 10 new local exchange and 11 additional long distance carriers. The current total for each category is 309 local exchange carriers and 495 long distance carriers. Neither category is mutually exclusive

due to some carriers supplying both local and long distance services. In 2007, 194 companies with a total of 23,836 payphones were certified to provide payphone service in Maryland.

Based on data compiled by the Federal Communications Commission, as of March 2006, the percentage of households with telephone service in Maryland was 95.0%. As of December 2006, the competitive local exchange carrier share of switched access lines in Maryland was 15%. To put this figure in perspective, the corresponding figure in June of 2000 was 3% and was as high as 18% in Maryland in 2004.

In 2007, the Division assisted the Commission's External Relations Division in handling several complaints with significant customer impacts and policy implications. Those included the applicability and enforcement of the community of interest test which has been established by the Commission to judge the appropriateness of and modifications to Verizon's local calling areas and the pricing of foreign exchange service as an alternative to revising local exchange boundaries. In addition, Staff assisted several retail customers with reliability and service quality issues such as network outages, low grade connections and other service quality issues.

Division staff also prepared written comments to the Maryland Legislature and appeared before the Legislature to oppose the adoption of SB 864/HB 1379. The proposed bills, which were ultimately passed by the Legislature and signed into law by the Governor, removed from Commission jurisdiction the provision of Voice over Internet Protocol ("VoIP") services. As a consequence, the Commission is prohibited from exercising jurisdiction over the pricing of VoIP services, the terms and conditions under which VoIP services are offered, the carriers that may choose to provide VoIP services and addressing customer complaints regarding VoIP services. In addition, Division personnel participated in the following formal proceedings during 2007:

	<u>Docket No.</u>
Verizon Maryland Request – Bundled Services Reclassification	CN9072
Verizon Maryland – Rate Increase for Toll Component of Bundles	CN9090

Verizon Maryland Service Performance	CN9114
Investigation into Verizon Maryland’s Affiliate Relationships	CN9120
Investigation into Local Calling Area Boundaries and Related Cases	CN8772/9121
Inquiry into Verizon Maryland’s Local Exchange Service over Fiber Optic Facilities	CN9123
Verizon Maryland’s Proposal to Reduce the Residential Monthly Directory Assistance “Free” Call Allowance	CN9125

7. 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 more significant accomplishments in 2007 demonstrate the breadth of the work of the division. The Division initiated an intense effort to identify and bring small propane distribution operators into compliance with pipeline safety regulations. The Division led the development of regulations for small generator interconnection with the electric distribution systems, which will stimulate the distributed generation market place. The Division also directed an effort to implement a federal requirement to use “811” as the number to call before digging.

E. OFFICE OF GENERAL COUNSEL

The Office of General Counsel (“OGC”) provides legal advice and assistance to the Commission, defends Commission orders in court, represents the Commission federal and State administrative proceedings, and initiates and defends other legal actions on the Commission’s behalf as needed. In addition, OGC supervises enforcement of the Commission’s rules, regulations filing requirements as applied to utilities, common carriers and other entities subject to the Commission’s jurisdiction.

OGC's responsibilities include responding to a variety of requests for information including Public Information Act requests and requests for legal opinions. In 2007, OGC fulfilled requests 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. OGC also reviewed 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 OGC also continues to provide assistance in drafting the Commission's legislative initiatives and in participating in the preparation of testimony to be given by the Commission before the General Assembly.

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. The OGC supervised the preparation of, and reviewed, the Interim Report to the General Assembly required to be filed by December 1, 2007 pursuant to Senate Bill 400.

During 2007 OGC participated in the following proceedings before various Maryland Circuit Courts, Court of Special Appeals and Court of Appeals, and the Federal Energy Regulatory Commission ("FERC").

1. Summary of Litigation

a. Commission Orders Appealed to Civil Court

Case No. 8938 & Appeals of Order No. 78354, Re Clipper Windpower, Inc., 94 MD PSC 54 (2003).

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, *Re Clipper Windpower, Inc.*, 94 MD PSC 54 (2003)

(“Order No. 78354”). Mr. Tribbey appealed the Circuit Court decision to the Court of Special Appeals.

On 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 Mr. Tribbey both petitioned the Court of Appeals for Certiorari. Both petitions were granted. Following the submission of briefs, oral argument was heard by the Court of Appeals on June 5, 2006.

In a published opinion, *Clipper Windpower v. Sprenger*, 399 Md. 539 (2007), the Court of Appeals reversed the judgment of the Court of Special Appeals and affirmed the Circuit Court of Baltimore City’s decision to dismiss the petitions for judicial review filed by Mr. Tribbey & Mr. Sprenger. Central to the Court’s decision in the case is that the Commission’s intervention statute – PUC Article § 3-106 is a mandatory prerequisite for intervention in order to obtain “rights” of a party to a PSC proceeding. Only parties can apply for rehearing of Commission decisions. Therefore, a person, regardless of his interest in the matter is not a party unless such person intervenes and intervention is granted. In its decision the Court of Appeals held that: (1) applying for rehearing of the PSC decision is separate and distinct from seeking judicial review; (2) neither the organization (Friends of Backbone Mountain) nor the landowner that represented the organization were parties before the Commission who could apply for rehearing; and, (3) landowners’ petitions for judicial review of the Commission’s decision were untimely.

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

Mr. Sprenger also filed an appeal of Order No. 78354 in Garrett County as 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. The Commission moved to dismiss, and dismissal was granted.

Mr. Sprenger and other plaintiffs sought an appeal of the Garrett County Circuit Court dismissal in the Court of Special Appeals. Briefs were filed by all parties in the case and oral argument was heard in the Court of Special Appeals on September 5, 2006.

On November 1, 2006, the Court issued a decision and order affirming the decision of the Garrett County Circuit Court. Mr. Sprenger then petitioned the Court of

Appeals for a Writ of Certiorari. The Court of Appeals granted the writ and established the briefing schedule as February 19, 2007 for Mr. Sprenger's brief and March 21, 2007 for the Commission. Oral arguments were held on May 3, 2007.

In a published opinion, *Sprenger v. PSC*, 400 Md. 1 (2007), the Court of Appeals affirmed the Court of Special Appeals and the Circuit Court for Garrett County – holding that: (1) petitioners had failed to exhaust their administrative remedies at the time they filed for declaratory judgment; and (2) the Commission's notification of interested persons by advertising its hearing in local newspapers was sufficient. The specific form of statutory relief from PSC decisions is set forth in PUC Article § 3-202 (petition for judicial review). The fact that petitioners failed to avail themselves of that legislatively provided remedy does not enable them to deny its existence, nor does it entitle them to declaratory relief in lieu of that relief.

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 unpublished June 24, 2005 Letter Order in Case No. 8938 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, without a hearing. A subsequent motion, filed by Petitioner Boone, to alter or amend judgment and a motion to revise, was denied. Mr. Boone filed an appeal from the Baltimore City Circuit Court decision. Briefs by all parties were filed, and oral argument was heard in the Court of Special Appeals on November 3, 2006.

The Court of Special Appeals remanded the case back to the Circuit Court for a hearing on the merits. The case was heard on the merits on October 22, 2007, including testimony by witnesses for the petitioner. On November 2, 2007, the Circuit Court entered an order affirming the Commission's June 24, 2005 letter order. Petitioner, Mr. Boone, has again appealed to the Court of Special Appeals.

Case No. 9036 & Appeals of Order No. 80460, 94 MD PSC 334 (2005).

Petition of Maryland Industrial Group et al. v. BGE – for Judicial Review of the Decision of the Maryland Public Service Commission in the

Matter of the Application of Baltimore Gas and Electric Company for Revision of its Gas Rates – Case No. 9036, Baltimore City Circuit Court, Case No. 24-06-001642.

Maryland Industrial Group (MIG), Maryland Office of People’s Counsel (OPC) and ISG Sparrows Point, LLC (ISG) all filed petitions for judicial review of the Commission’s December 21, 2005 gas rate order in Case No. 9036. MIG and OPC challenged the Commission’s decision to use BGE’s actual capital structure – which reflected no short term debt – for purposes of determining the Company’s authorized rate of return. OPC also opposed the methodology used by the Commission in determining the Company’s overall rate of return and challenged the allocation of the full cost of BGE’s incentive compensation expense to ratepayers. ISG challenged the Commission’s acceptance of BGE’s allocation of a portion of general distribution mains to ISG as well as cost associated with the Company’s propane peaking facility.

Following the submission of memoranda, answering memoranda and other pleadings, the matter was heard by the Court on December 13, 2006. The Commission’s order was affirmed by the Court in its entirety, in a written decision issued December 26, 2006. ISG, OPC and MIG have each noted separate appeals to the Court of Special Appeals in this matter. Oral Argument was heard in the Court of Special Appeals on November 8, 2007. The Court’s decision is pending.

b. Commission Decisions Relating to Consumer Disputes with Utilities

Pursuant to PUCA §§3-102 & 3-202 and COMAR 20.32, appeals of Commission decisions emanating from customer disputes with utilities may enter the Maryland judicial system via an appeal taken to any Circuit Court in the State. 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.

a. Case No. 9025 & Appeals of Order Nos. 80757, 97 MD PSC 86 (2006) and Order No. 80937, 97 MDPSC 171 (2006).

Chevy Chase Cars, Inc. vs. Maryland Public Service Commission; Circuit Court for Baltimore City, Case No. 24-C-06-

005901AA; Court of Special Appeals of Maryland, Case No. 00011, September Term 2007

On July 19, 2006, Chevy Chase Cars, Inc. (Chevy Chase) filed a Petition for Judicial Review of Commission Order Nos. 80757 and 80937 in Case No. 9025. In that case the Commission approved the request of Potomac Electric Power Company (Pepco) to bill Chevy Chase retroactively for up to three years of electricity undercharges. The matter was heard by the Circuit Court for Baltimore City Court on January 25, 2007. The Commission's decisions were affirmed in a written opinion issued by the Circuit Court on February 15, 2007.

Dissatisfied with the circuit court's decision, Chevy Chase filed an appeal with the Court of Special Appeals of Maryland on March 8, 2007. The Joint Record Extract and the Appellant's Brief were filed on July 23, 2007. Pepco and the Commission filed their Briefs on September 7, 2007. A hearing was held before a panel of the Court of Special Appeals on December 12, 2007. The case is currently pending a decision.

In the Matter of John S. Breen; *Case No. 06-C-06-046390; Circuit Court for Carroll County.*

On September 25, 2006, John S. Breen filed a Petition for Judicial Review of Commission letter orders issued July 31, 2006, and August 25, 2006, concerning his billing dispute with Baltimore Gas and Electric Company (BGE) and alleged violations of regulations regarding a termination notice. In those letter orders the Commission affirmed the decision of its Office of External Relations that Mr. Breen is indebted to BGE for a past due bill. On October 12, 2006, the Commission filed its Response and BGE filed its Response with the Court on November 2, 2006. The Commission filed the Record of Proceedings with the Court on November 2, 2006, and the Court issued its Notice of the filing on November 6, 2006. On December 26, 2006, the Commission filed a Motion to Dismiss citing the fact that the Petitioner had not timely filed a Memorandum in support of his petition and also citing prejudice to the Commission. Mr. Breen filed his Memorandum with the Court on January 19, 2007. The Court denied the Commission's Motion on January 24, 2007, extended the deadlines for filing pleadings and cancelled the previously scheduled hearing date. Answering Memorandums were filed by the Commission on February 21, 2007, and by BGE on February 23, 2007. A

hearing was held on June 20, 2007, and the circuit court issued an order affirming the commission's decision and dismissing the Petition on the same date.

b. 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 2005 and 2006 annual reports. 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 a customer without requiring her to pay accumulated quarterly fees for the 6-year period that she was not a Carpenter's Point water customer. On March 19, 2007, the court issued a notice to the parties scheduling a status conference for May 1, 2007, but the attorney for Carpenters Point filed a motion for leave to withdraw on April 3, 2007. Ultimately, Carpenters Point filed for dismissal of its action and this matter was taken off the court's docket in 2007.

c. Reginald Flowers. v. PSC, Circuit Court for Harford, Case No. 12-C-07-759.

On February 9, 2007, the Commission issued a written decision affirming the decision of the Assistant Manager of External Relations holding the Reginald Flowers responsible to Baltimore Gas and Electric Company (BGE) for amounts disputed regarding the use of gas service. The customer sought review of the Commission's decision in the Circuit Court for Harford County. The Commission responded and appeared for argument on July 12, 2007. On July 23, 2007, the Court issued an order affirming the Commission.

2. 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 matters relating to wholesale transmission and energy providers in general, and matters pertaining to the PJM Interconnection, Inc. in particular. Following is a list of several key FERC cases for the year 2007.

A. Transmission

PJM Transmission Rate Design and Cost Allocation Cases

1. *PJM Interconnection, LLC, Docket EL05-121.*

This proceeding relates to what transmission rate design should be adopted for the PJM footprint after it expanded to include transmission assets in other states including West Virginia, Virginia and Ohio. On April 19, 2007, FERC issued Opinion No. 494, 119 FERC 61,063 (2007) (“Opinion No. 494”), which required that the costs of existing transmission assets in PJM be recovered by means of a “license-plate”¹ rate from the load located in the zone where the transmission facility is located. Further, Opinion No. 494 required that the costs of new transmission facilities over 500 kV that are approved by PJM as part of its RTEP be socialized across all of PJM in proportion to the level of each zone’s peak load.

Several parties sought rehearing of Opinion No. 494. FERC issued a tolling order on June 15, 2007. As directed by Opinion No. 494, PJM made a compliance filing on May 21, 2007 to implement the new PJM rate design with regard to facilities over 500kV that were included in the various consolidated cost allocation proceedings. Having intervened in the original docket, the Commission continues to monitor this proceeding.

2. *PJM Interconnection, LLC, Docket Nos. EL07-57 and ER06-456, -880, -954, -1271; ER07-424.*

In Opinion No. 494, FERC instituted Docket No. EL07-57 to examine the matter of cost allocation for reliability projects and economic RTEP projects below 500kV. These proceedings are the various consolidated FERC dockets addressing PJM’s cost

¹ In a license-plate rate design, costs of transmission facilities are allocated to the zone where the transmission facilities are located. In contrast, in a postage-stamp rate design, costs are allocated pro-rata regardless of where the facilities are located. Under a beneficiary-pays rate design, the costs are allocated to load in zones that benefit based on a flow analysis.

allocation in connection with specific RTEP projects. On November 11, 2007, the contested settlement and comments on the resolution of issues with the allocation of costs associated with RTEP projects below 500kV were referred to the FERC. Since the contested settlement expressly excluded issues related to the allocation of costs of RTEP projects below 500 kV to merchant transmission, these issues were set for hearings in May 2008.

B. Incentive Transmission Rate Cases

1. *Trans-Allegheny Interstate Line Co. (“TrailCo”), ER07-562-000.*

TrailCo, a subsidiary of Allegheny Energy, filed for FERC approval of its proposal to recover the development, construction and regulatory costs of a new 500kV transmission line and the installation of a new static VAR compensator (“SVC”) at the existing Black Oak Substation. The 500kV transmission line and the SVC were approved through the RTEP process. The SVC was installed in December 2007 and it increased transmission capacities in Maryland. TrailCo sought to recover the costs through formula rates with incentives included in the rate of return. The Commission participated in the extensive negotiations and settlement proceedings that were conducted under FERC’s procedures and expects a settlement of all issues in early 2008.

2. *Baltimore Gas and Electric Co., ER07-576-000.*

On February 28, 2007, BG&E applied for authority to change the transmission rates approved by the FERC in ER05-515-000. BG&E sought additional revenues through incentive payments and the recovery of revenues to cover Construction Work In Progress costs for certain transmission projects. Having participated in ER05-515-000, the Commission protested the additional incentive request.

After initially finding BGE’s application deficient, on 7/24/07, FERC issued an Order which, *inter alia*, dismissed BGE's request for incentive treatment in connection with 37 future transmission projects without prejudice and ruled that BGE was not entitled to recover construction work in progress (“CWIP”) in connection with the

remaining projects. FERC ruled that BGE was entitled to an incentive return on equity (“ROE”) for its Conastone and Waugh Chapel projects (which were approved by PJM as baseline RTEP reliability projects). FERC held that there was insufficient record evidence to determine that the Baltimore City and Finksburg projects were not "routine" investments under its nexus test and directed its Staff to conduct a technical conference on this issue. A technical conference was held as directed, in which BGE, the Commission, and also Maryland People’s Counsel participated. BGE filed a motion for rehearing of FERC’s July 24, 2007 order, seeking a ruling that transmission incentives in connection with future RTEP projects could be flowed through the company’s formula rate; and MD-PSC filed a conditional motion for rehearing essentially opposing such treatment. On November 16, 2007, FERC granted BGE’s request for incentive treatment, with dissenting opinions filed by Commissioners Kelly and Wellinghoff; and both the MD-PSC and the Maryland People’s Counsel filed requests for rehearing from the November 16, 2007 order.

3. *Potomac-Appalachian Transmission Highline (“PATH”), LLC, ER08-386-000.*

On December 28, 2007, PATH filed an application for incentive transmission rate treatment in connection with the construction of a new transmission line operating at 765kV and running nearly 300 miles from the Amos Substation in western West Virginia to the Kemptown Substation in north central Maryland. The PATH project had been previously approved by the PJM Board on June 22, 2007 under its RTEP process. The PATH project will provide additional transmission capacity, and access to out of state generation for load in Maryland.

B. PJM/MISO Transmission Rates

1. *PJM-MISO rate design Docket Nos. EL04-135, EL02-111, EL03-212, ER05-6.*

On August 1 2007, the PJM Interconnection, (“PJM”) and the Midwest Independent Transmission System Operator, (“MISO”) as regional transmission organizations (“RTOs”), together with the vast majority of PJM and MISO transmission owners, made a compliance filing. The compliance filing responds to a prior FERC

directive mandating that a new rate design for the combined PJM-MISO region be proposed by August 1, 2007 (to take effect on February 1, 2008). Essentially, the August 1, 2007 filing proposed that the costs of existing transmission, and of new transmission built in one RTO to benefit load located in the same RTO, would be allocated using a “license-plate”² approach. The allocation of costs associated with new cross-border facilities (i.e., facilities built in one RTO to benefit load located in the other RTO) will be determined by FERC, based upon the filings that already had been made with respect to the allocation of cross-border reliability facilities and the filings to be made regarding cross-border economic facilities in the future. These proceedings will affect the costs of transmission that is built for both reliability purposes and economic purposes—transmission costs which are included in Maryland electric rates.

2. *AEP v. PJM and MISO, Docket EL07-101-000 (related to August 1, 2007 filing).*

On September 17, 2007, AEP filed a complaint against MISO and PJM regarding their decision to retain license plate rates in connection with existing transmission and new intra-RTO transmission facilities. Essentially, AEP wants to have costs of all existing and new facilities located in PJM or MISO and operating at or above 765 kV and above (or alternatively, 345 kV and above), to be allocated via postage-stamp³ rate to load located in PJM and MISO.

3. *Cross Border Facilities – Midwest Independent Transmission System Operator, ER05-6-044, etc.*

This proceeding involves the allocation of costs of constructing transmission projects needed for reliability in one RTO to benefit the other. PJM’s cost allocation approach involves netting of positive and negative congestion impacts at the transmission owner zonal level, while MISO’s approach involves netting at the RTO level. Comments and reply comments were filed during January 2007 through April 2007.

C. PJM Transmission Planning

² See *supra* note 1.

³ See *supra* note 1.

1. *Emergency Petition and Complaint of District of Columbia Public Service Commission, Docket EL05-145.*

This proceeding involved Mirant's proposal to shut down the Potomac River Generating Station because of environmental compliance problems. On July 13, 2007, Pepco and PJM submitted a report indicating that the two transmission lines needed to serve load after Potomac River is placed out of service have been constructed, and requesting FERC to remove its requirement for monthly progress reports. On August 24, 2007, FERC issued an order observing that in PJM's September 12, 2005 response to a data request, PJM identified possible violations that could occur even with the two lines; namely, overload and voltage violations. PJM said voltage support was needed in the Baltimore-DC area; that several hundred mega-volt amperes reactive (MVARs) of voltage support were being planned for installation through 2007 and a more detailed, joint PJM, PEPCO and BGE study was needed to develop a regional long-term plan. Also, the PJM 2006 RTEP confirms that reliability criteria violations caused by the Potomac River shut down will not be fully rectified until various RTEP upgrades are completed in 2008. Hence, while FERC removed the monthly progress report requirement as requested, it also directed Pepco and PJM to file within 30 days a report addressing the regional reliability issues identified by PJM. Pepco and PJM timely made the filing on September 23, 2007.

2. *PJM Interconnection, Docket No. ER06-1474.*

This proceeding involves the filing PJM made on September 8, 2006 to change its RTEP process by way of amendments to its operating agreement and OATT. On November 21, 2006, FERC issued an order conditionally accepting proposed changes to PJM's RTEP protocol; rehearing petitions were filed; and FERC issued tolling order on July 22, 2007. On March 21, 2007, PJM made its compliance filing providing additional information and amendments regarding PJM's economic transmission process. On June 11, 2007, FERC issued an order accepting in part and rejecting in part PJM's compliance filing and directing PJM to submit a further compliance filing within 120 days. FERC found that PJM failed to comply with the condition in its prior order that PJM provide the method by which it would weigh the 7 metrics to determine whether a project qualifies as an economic project. Rejecting PJM's position that it should be given flexibility in this

regard, FERC directed PJM to file a formulaic approach to choosing economic project proposed to reduce contagion that describes exactly how any metrics will be calculated, weighted, considered and combined. FERC accepted PJM's compliance filing regarding participation of demand response, generation and advanced technologies in the planning process, saying that PJM has provided sufficient information detailing how it will consider these resources in an annual planning process. FERC stated that the detail provided by PJM as to how it will consider generation availability trends should be included in tariff. PJM said it will study the national carbon cap-and-trade program and develop appropriate and meaningful assumptions for its analysis through the Transmission Expansion Advisory Committee; and FERC found this response adequate because the tariff incorporates a process for reviewing changes in system conditions, including changes in assumptions regarding the availability and operations of generation. FERC deferred ruling on rehearing requests pertaining to PJM's cost/benefit analysis, congestion metrics, forecasting techniques, etc., until PJM makes the required compliance filing. On October 9, 2007, PJM made its compliance filing setting forth formula for determining qualification as an economic project under RTEP process. Essentially, PJM proposed a metric where benefit must outweigh cost by 1.25 to 1.0; benefits based upon 15-year period after the project is placed in service; benefits weighted 70% for production costs and 30% for LMP impacts (as in MISO); and no netting of positive and negative LMP impacts where the project is less than 500 KV (since won't be socialized). On October 30, 2007, comments were filed by various parties supporting or contesting PJM's October 9, 2007 compliance filing. This matter remains pending.

II. Generation Markets

A. General

1. *Market-Based Rates for Wholesale Sales of Energy, Capacity, and Ancillary Services by Public Utilities, RM04-7-000.*

On May 18, 2006, FERC issued a Notice of Proposed Rulemaking ("NOPR"), which was intended to refine and codify FERC's current standards for granting market-based rate authority, in order to ensure protection against exercise of market power and to

provide greater certainty to sellers seeking market-based rate authority. Comments and reply comments were filed; and on June 21, 2007, FERC issued Order 697 adopting final rules in this proceeding. Rehearing requests were filed by various parties; and on August 20, 2007, FERC issued a tolling order.

2. *Conference on Competition in Wholesale Markets, AD07-7-000; Wholesale Competition in Regions with Organized Electric Markets, RM07-19-000.*

FERC held conferences on February 27, 2007 and May 8, 2007 to examine the state of competition in wholesale power markets. On June 21, 2007, FERC issued an Advance Notice of Proposed Rulemaking (ANOPR), instituting docket RM07-19-000 and seeking public comment on potential reforms to improve operations in organized wholesale markets administered by ISOs and RTOs. On September 14, 2007, many parties filed comments on the ANOPR, including the Organization of PJM States, Inc. (“OPSI”), in which the Maryland Commission joined. Supplemental and reply comments subsequently were filed by several parties and the matter is pending.

B. PJM - Specific

1. *PJM Interconnection, LLC, Docket Nos. EL05-148 and ER05-1410.*

This proceeding involved PJM’s proposal to adopt its Reliability Pricing Model (“RPM”), which was filed on August 31, 2005. After extended negotiations, an RPM settlement was filed by PJM on September 29, 2006; FERC issued an order on December 22, 2006 conditionally accepting the RPM settlement; and several rehearing requests were filed. On June 25, 2007, FERC issued a decision generally upholding RPM; several parties requested rehearing of FERC’s June 25, 2007 order; and on August 24, 2007, FERC issued a tolling order to consider these requests for rehearing. Judicial appeals were filed from FERC’s December 22, 2006 and June 25, 2007 orders.

On September 24, 2007, PJM made a filing to comply with FERC’s requirement directing PJM to remove the discretion of PJM’s Market Monitoring Unit (“MMU”) to reject bids. Several parties filed protests to PJM’s September 24, 2007 compliance filing on a variety of grounds; and on October 30, 2007, PJM filed an answer thereto (as did a group of capacity buyers and sellers). The matter is pending.

2. *PJM Interconnection, LLC, Docket ER07-1050.*

On June 19, 2007, PJM filed an application that proposed clarifying revisions to the PJM tariff and reliability assurance agreement, relating to PJM's implementation of RPM. Protests were filed by certain parties and PJM filed an answer to protests. On August 17, 2007, FERC issued order accepting PJM's clarifications subject to nominal suspensions, conditions, and refund; and established a technical conference on PJM's proposed capacity export charge.

On September 17, 2007, PJM responded to FERC's questions posed in its August 17, 2007 order regarding the capacity resource delisting process and filed related revisions to its OATT. Essentially, PJM clarified that generators located in PJM that are not committed to serving PJM load may de-list as a PJM capacity resource, if the output is to be sold outside PJM pursuant to documented, unit-specific export transaction and subject to satisfaction of the "must-offer" rules and exceptions under the RPM market power mitigation provisions. These must-offer rules provide that all existing generation resources capable of qualifying as capacity resources must offer their capacity into the RPM auctions (including the incremental auctions, unless owner willing to face certain sanctions and restrictions), unless the resource meets one of the following tests: 1) it has "a financially and physical firm commitment to an external sale of its capacity"; 2) it will be physically unavailable in the relevant delivery year; or 3) it was interconnected to the system as an "energy-only" resource. A PJM capacity resource that is offered into the PJM auctions but does not clear will not be subject to the obligation of a committed capacity resource to offer each day the available capacity of the resource into the PJM day-ahead market; instead, submission of day-ahead energy bids from generators that did not clear the RPM auctions is optional. Amp-Ohio raised the issue if the exemption also would apply to a PJM generator used to supply the owner's own load located outside PJM and PJM said yes. Capacity resources that clear the RPM auction must offer capacity into the day-ahead energy market, where it is either scheduled or not scheduled. If the unit is scheduled and the resource does not deliver, the market participant that offered the resource must pay for replacement energy at the real-time price. If the unit is not scheduled in day-ahead market and is then sold on a bilateral basis, the resource must be made available to PJM during Maximum Generation Emergency. On October 9,

2007, Amp-Ohio filed comments saying that additional changes must be made to make it clear that owner of unit in PJM that is being used to serve owner's load outside PJM is exempt; and Duke Energy filed comments supporting tariff changes.

As directed by FERC, a technical conference on PJM's proposed capacity export charge was held on September 28, 2007, with PJM providing a written presentation on its mechanism to address the impact of capacity exports on PJM's locational reliability construct (RPM). Essentially, PJM proposes to impose a capacity export charge, which would be applicable when the output of a PJM generator has to be moved through a constrained area of PJM on its way to load outside PJM. This type of transaction has much impact upon EMAAC, where generation to be exported to New York has to be first imported through constrained EMAAC zone (which reduces import capability and increases locational RPM prices). PJM emphasized that this will not affect all transactions and is not a prohibited PJM-MISO regional through-and-out rate ("RTOR"). With FERC's approval, firm transmission service between PJM and MISO remains subject to congestion charges imposed by PJM or MISO; and the export capacity charge is a congestion charge and not a RTOR. Post technical conference comments filed on October 29, 2007 and reply comments filed on November 13, 2007 by several parties. The Commission filed a motion for late intervention and comments supporting concept of capacity export charge but not necessarily PJM's numbers. This matter is pending.

3. *Allegheny Electric Cooperative, et al. v. PJM Interconnection, EL07-56.*

Complaint filed on April 17, 2007 by various parties, including consumer advocates, industrial customers, etc. regarding PJM's market monitoring unit. This case was consolidated with a similar complaint filed by OPSI. FERC issued an order on September 20, 2007 finding that there was no tariff violation and establishing settlement procedures. The petitioners filed a request for rehearing on October 19, 2007 and participated in settlement discussions in consolidated docket EL07-58-000.

4. *Organization of PJM States, Inc. et al, v. PJM Interconnection, Docket EL07- 8-000.*

On April 23, 2007, OPSI and the OPSI states filed a complaint against PJM regarding its market monitoring unit. FERC issued order on September 20, 2007 finding

no tariff violation and establishing settlement procedures. On October 5, 2007, FERC appointed John Moot, FERC's General Counsel, with the assistance of FERC's Dispute Resolution Service (DRS) to facilitate settlement of MMU independence issues. OPSI filed a request for rehearing on October 19, 2007 and participated in settlement discussions. A settlement finally was reached in Dockets EL07-56 and EL07-58 and filed with FERC on December 19, 2007.

Key provisions improving the structure and function of the PJM Market Monitor resulting from the Commission's involvement in this matter include a provision stating that:

The Market Monitoring Unit shall be independent from, and not subject to, the direction or supervision of any person or entity, with the exception of the PJM Board as specified in Section III.D, and the [FERC]. No person shall have the right to preview, screen, alter, delete, or otherwise exercise editorial control over or delay Market Monitoring Unit actions or investigations or the findings, conclusions, and recommendations developed by the Market Monitoring Unit that falls within the scope of the market monitoring responsibilities contained in this Plan.

Also, revised Attachment M - Sec. IV-F --- Studies or Reports for State Commissions states that:

Upon request in writing by the OPSI Advisory Committee, the Market Monitoring Unit may, in its discretion, provide such studies or reports on wholesale market issues, including wholesale market transactions occurring under a state-administered auction process, as may affect one or more states with the PJM area."

This provision allows States, such as Maryland, to request studies directly from the Market Monitor concerning market behavior of generators who sell wholesale power for distribution to Maryland customers.

5. *PJM Industrial Customer Coalition v. PJM, EL08-12-000.*

This proceeding involved a Fast-track complaint filed on November 20, 2007 by the PJM Industrial Customer Coalition alleging that certain provisions in PJM's OATT (which would automatically sunset certain existing payments for economic demand

response) are unjust and unreasonable and should be changed in the manner proposed by the petitioners. On December 31, 2007, FERC dismissed this complaint and encouraged parties to use FERC's on-call settlement judge or dispute resolution service for additional stakeholder process on economic demand response with an eye to resolving the matter in time for summer.

6. ***Mirant Energy Trading, LLC, et al. v. PJM, EL08-8.***

Complaint filed November 8, 2007 seeking to modify provisions of PJM's OATT as related to the third incremental auction in RPM. Several parties intervened and filed comments and protests; and PJM filed answer. On December 10, 2007, Mirant filed a response to the protests and PJM's answer.

C. **MISO and PJM - Joint and common market**

1. ***Wisconsin Public Service Corp v. PJM, Docket EL06-97.***

This was a complaint filed by the Wisconsin Public Service Corp. regarding the decision by PJM and MISO that forming a joint market was not cost-effective or necessary, because prices already were converging at the border as a result of other actions that had been taken. Joint comments were filed on September 13, 2006 by state commissions for Michigan, Pennsylvania, Illinois, and Wisconsin, which requested FERC to mandate single dispatch thru MISO and PJM as long as it is technologically feasible. On September 15, 2006, PJM and MISO filed an answer to the complaint; and on October 2, 2006, WPS filed an answer to the answer filed by PJM and MISO. On October 17, 2006, PJM and MISO filed a motion to reject or leave to reply and reply. On February 8, 2007, FERC issued an order dismissing the complaint. On March 10, 2007, Wisconsin Public Service Corporation filed for rehearing; the state commissions did not. FERC issued a tolling order on April 10, 2007. On September 24, 2007, FERC issued an order denying rehearing of its February 8, 2007 order. On November 30, 2007, Wisconsin Public Service Commission, Upper Peninsula Power Company, and Intergrys Energy Services, Inc. filed an appeal to the U.S. Court of Appeals for the District of Columbia Circuit from FERC's order dismissing complaint.

IV. MAJOR ACTIVITIES AND SPECIAL PROJECTS

A. 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”), Delmarva Power & Light Company (“Delmarva”), 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. By December 2006, that figure had risen to 101,499 and through December 2007, the number of commercial, industrial and residential customers served by competitive electric suppliers increased to 115,841. Of these, 54,682 were residential and 61,159 were non-residential accounts. PEPCO had the highest number (26,458) of residential accounts served by suppliers, and BGE had the highest number (33,788) of commercial accounts served by suppliers. The total statewide number of distribution service accounts eligible for electric choice was 2,197,161 of which 1,967,278 were residential and 229,883 were non-residential. Overall, as of December 2007, 2.8% of residential accounts and 26.6% 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 4,910 MWs at the end of December 2007. Of this amount, 217 MWs were residential and 4,693 MWs were non-residential. At that time, electric suppliers in Maryland served 3.3% of eligible residential peak load and 70.8% of eligible non-residential peak load. BGE had the highest peak-load served by suppliers (2,690

MWs). The total statewide peak load obligation eligible for choice was 13,295 MWs of which 6,665 MWs were residential and 6,630 MWs were non-residential.

As of December 2007 in APS's service territory, there were 3 suppliers serving residential customers, 11 suppliers serving small commercial and industrial (C&I) customers, 13 suppliers serving mid-sized C&I customers, and 12 suppliers serving large C&I customers. In BGE's service territory, there were 10 suppliers serving residential customers, 19 suppliers serving small C&I, 20 suppliers serving mid-sized C&I customers, and 19 suppliers serving large C&I customers. In Delmarva's service territory, there were 8 suppliers serving residential customers, 16 suppliers serving small C&I customers, 16 suppliers serving mid-sized C&I customers, and 12 suppliers serving large C&I customers. PEPCO's service territory had 8 suppliers serving residential customers, 17 suppliers serving small C&I customers, 21 suppliers serving mid-sized C&I customers, and 19 suppliers serving large C&I customers.

As of December 2007, there were 1,909 residential Time-Of Use (TOU) enrollment customers served by suppliers in BGE's service territory. Pepco reported 4,611 residential TOU accounts served by suppliers. The total number of all residential TOU customers was 72,813 for BGE's service territory and 55,364 for PEPCO's service territory. The percentage of residential TOU customers served by suppliers was approximately 3% in BGE's service territory and 8% in PEPCO's service territory.

B. Renewable Energy Portfolio Standard Program Year 2007

The objective of §7-701, *et seq.*, of the PUC Article (RPS Legislation) is to recognize and develop the benefits associated with a diversity of renewable energy supplies to serve Maryland. The Commission's Renewable Energy Portfolio Standard (RPS) Program does this by recognizing the environmental and consumer benefits associated with renewable energy and requiring that a set proportion be included in all retail electricity sales. This recognition is demonstrated through the creation, sale and transfer of renewable energy credits (RECs). The development of renewable energy sources is further promoted by requiring electricity suppliers to pay a financial penalty for failing to acquire sufficient RECs to satisfy the RPS as set forth in §7-703 of the PUC Article. The penalty is used to support the creation of Tier 1 sources in the State of

Maryland. Additional information regarding Maryland's RPS can be found within the Maryland Renewable Energy Portfolio Standard Report of 2008.

1. Year 2007 Accomplishments

The first compliance year concluded on December 31, 2006 and the second compliance year began on January 1, 2007. With the conclusion of the first compliance year, the annual reports for Compliance Year 2006 were due from electricity suppliers and load serving entities on April 1, 2007. Other notable events for year 2007 include legislative changes that were made to the Public Utility Companies Article that created a solar carve out for Maryland and the adoption for publication of proposed regulations addressing the implementation of the revised solar RPS.

2. Statutory Changes

In April 2007, the RPS Legislation was amended to add a solar carve out⁴ to the Maryland RPS. As revised, the RPS Legislation⁵ mandates a specified additional percentage of the RPS obligation from attributes associated with electricity generation that is derived from a solar source. This requirement is a supplement to the previous Tier 1 requirement and was made effective on January 1, 2008.

3. Regulation Changes

On October 19, 2007, the Commission held a Solar Technical Conference. The purpose of this conference was to convene a number of solar energy market participants to share information and ideas regarding a number of issues that may relate to the solar RPS. Topics discussed during the Solar Technical Conference included an overall background on the solar market, previous experiences within other state's solar RPS programs, available REC trading platforms, and methods for metering and verifying renewable solar energy generation.

An Open Meeting was held by the Commission in Administrative Docket RM 32, *Revisions to COMAR 20.61 Renewable Energy Portfolio Standard Program - Solar Energy*, on December 12, 2007. At this meeting, the Commission approved for

⁴ SB 595 was passed by the General Assembly on April 9, 2007 and signed by Governor O'Malley on April 24, 2007.

⁵ See Chapters 119 and 120, Maryland Acts 2007.

publication in the *Maryland Register*, a set of proposed regulations addressing issues created by the aforementioned statutory changes.

4. Supplier Annual Reports filed for Compliance Year 2006

Calendar Year 2006 marked the first compliance year for Maryland’s Renewable Energy Portfolio Standard Program. Annual reports required under COMAR 20.61.04.02 were filed and, as of December 18, 2007, the Commission received reports from 67 electric entities. Of the 67 reviewed reports from electric entities, 12 were from utilities, 35 were from licensed suppliers, and 20 were from electricity brokers. Based upon information received from the reports, 552,874 Tier 1 RECs were used to meet Tier 1 RPS obligations and 1,322,069 Tier 1 and Tier 2 RECs were used to meet Tier 2 obligations for all licensed electricity suppliers, brokers and utilities. The total for all compliance fees paid was \$38,209.45. The compliance fees were paid directly to Comptroller for the account of the Fund, which is managed by the MEA to fund renewable energy projects in the State of Maryland. Table 3 below reflects these results.

Table 3: 2006 RPS Supplier Annual Report Results

Electricity Broker/Supplier/Utility	RPS Obligation		RPS Compliance Method Submitted		
	Tier 1	Tier 2	Tier 1 RECs	Tier 2 RECs	Compliance Fee
Overall Total for Compliance Year 2006	520,073	1,300,201	552,874	1,322,069	\$38,209.45

Chart 1 below shows the number of RECs used for Compliance Year 2006 by fuel source. The fuel codes listed are identical to the codes found on the Department of Energy EIA-860 form⁶. Approximately 50% of the overall obligation is being met by hydroelectric power with about 8% coming from Tier 1 hydroelectric and 42% from Tier 2⁷ hydroelectric resources. About 20% of the RECs came from municipal solid waste facilities. These facilities also use a Tier 2 fuel source. Black liquor and landfill gas are

⁶ According to the DOE website: <http://www.eia.doe.gov/cneaf/electricity/page/eia860.html>, The EIA-860 is a generator level data file that includes specific information such as, initial date of commercial operation, prime movers, generating capacity, energy sources, status of existing and proposed generators, proposed changes to existing generators, county and State location, ownership, and FERC qualifying facility status about generators at electric power plants owned and operated by electric utilities and non-utilities.

⁷ Tier 2 hydroelectric resources are sourced from facilities that are greater than 30 MW in rated capacity.

fuel sources that comprise about 13% and 10% of the overall⁸ number of RECs utilized for compliance in 2006, respectively.

Chart 1: 2006 Compliance RECs by Fuel Source

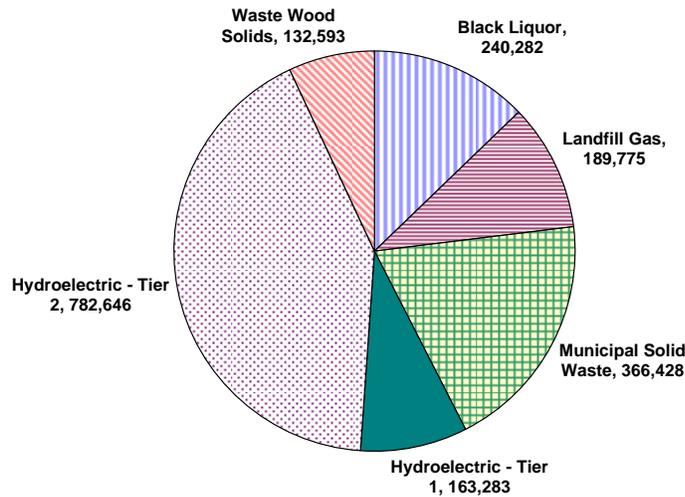
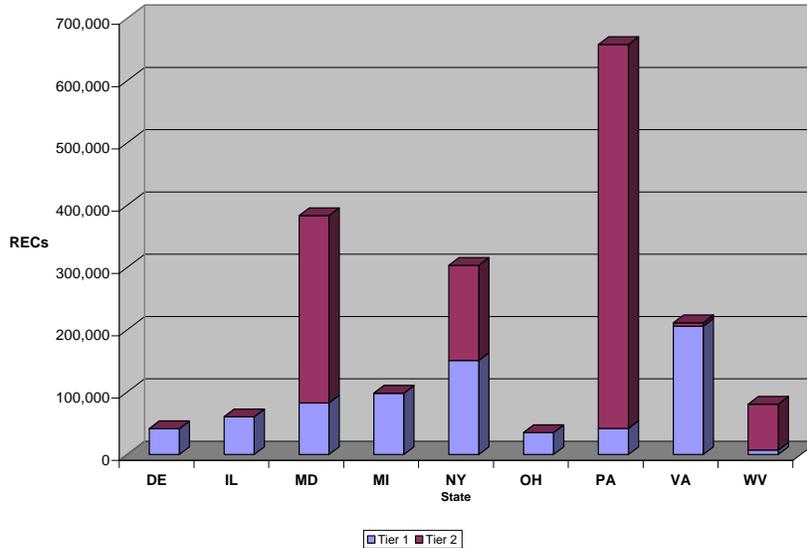


Chart 2 below displays the proportion of RECs, by state of generation, which were utilized by electric companies and suppliers towards Maryland's RPS compliance in 2006. Pennsylvania comprised about 54% of the Tier 2 REC supply and around 35% of the overall⁹ REC supply. The most Tier 1 RECs came from Virginia, as Virginia accounted for approximately 28% of the 2006 Tier 1 RECs used for compliance. Maryland was the source for about 20% of the overall RECs used for compliance in 2006. Specified by Tier, Maryland accounted for about 11% of the Tier 1 and 26% of the Tier 2 RECs used for compliance by electric companies and suppliers in 2006. Overall, RECs derived from hydroelectric resources located in Pennsylvania accounted for about 28% of all RECs and 45% of all Tier 2 RECs used for compliance in 2006.

⁸ Tier 1 and Tier 2.

⁹ Tier 1 and Tier 2.

Chart 2: 2006 Compliance RECs by Facility Location



The total Maryland energy sales for 2006 were approximately 65 million megawatts per hour (MWhs). Section 7-703 of the PUC Article provides for RPS exclusion for excess Industrial Process Load, sales under rate cap, and sales by cooperatives with supply contracts prior to October 1, 2004. Based on the above estimate, Maryland retail sales requiring RPS compliance would have been approximately 53 million MWhs and would have required approximately 1,855,000 RECs.¹⁰ As noted above, suppliers filed 1,874,943 RECs for compliance.

The Maryland RPS made continued progress as a program through 2007. Additional renewable energy facilities were certified, reports demonstrating compliance for year 2006 were received and changes associated with solar energy were made. The continued growth and tweaks made are allowing for the RPS to continue as a significant facet of the operations of the Maryland Public Service Commission.

C. Regulations -- New and Amended

The Commission conducted proceedings involving amendments to the Code of Maryland Regulations Title 20 regarding: (a) Practice and Procedure -- Applications for a Qualified Rate Order and Authority to Issue Rate Stabilization Bonds; (b) Service Supplied by Electric Companies – Environmental Trust Fund; (c) Service Supplied by Electric Companies – Interconnection Standards for Small Generators; (d) Competitive Electricity Supply; (e) Liquefied Petroleum Gas Systems and Safety Standards for Hazardous Liquid Pipelines – updates; (f) Renewable Energy Portfolio Standard Program -- Solar Energy; (g) Applications Concerning the Construction or Modification of Generating Stations and Overhead Transmission Lines -- Wind-Powered Energy Facilities; and (h) various chapters – Incorporation by Reference.

COMAR 20.07.04.11 Practice and Procedure -- Applications for a Qualified Rate Order and Authority to Issue Rate Stabilization Bonds

The Commission adopted a new regulation specifying the contents of applications for a qualified rate order and associated rate stabilization bonds as required by 2006 Maryland Laws, 1st Special Session (Senate Bill 1). The regulation also specified the manner for performing the annual true-up of the rate stabilization charge as directed by § 7-531 of the PUC Article. An obsolete regulation with the same number was deleted.

COMAR 20.50.01 Service Supplied by Electric Companies – Environmental Trust Fund

The Commission adopted regulations that standardized the methods for billing, collecting, and remitting the environmental surcharge under PUC Article §7-203.

COMAR 20.50.09 Service Supplied by Electric Companies – Small Generator Interconnection Standards

The Energy Policy Act of 2005 required each state to determine standards for the interconnection of electric generators to the distribution systems of electric companies. Section 2, Chapters 119 and 120, Acts 2007 directed the Commission to form a small

¹⁰ This figure is based upon the 1% Tier 1 obligation and the 2.5% Tier 2 obligation. 53,000,000 MWhs X 3.5% = 1,855,000 MWhs = 1,855,000 RECs.

generator interconnections workgroup to develop interconnection standards and procedures for on-site generator facilities operating in Maryland and to adopt regulations consistent with nationally adopted standards and procedures to facilitate and encourage the connection of small distributed generators. The Commission formed a workgroup which developed proposed guidelines. The Commission developed proposed regulations for the interconnection of small generators based upon these guidelines which will be published in 2008.

COMAR 20.53 Competitive Electricity Supply

Proposed regulations were published that would readopt residential consumer protection regulations with certain clarifications, adopt non-residential consumer protection regulations, and establish regulations pertaining to pre-enrollment practices, transfers of service, and utility consolidated billing, including partial payment posting.

COMAR 20.56.01 Liquefied Petroleum Gas Systems and 20.58.01 Safety Standards for Hazardous Liquid Pipelines

Proposed revisions to existing regulations for liquefied petroleum gas pipelines and hazardous liquid pipelines updated the regulations to current Maryland and federal requirements. The definition of and reporting requirements for accidents involving liquid petroleum gas pipelines and the removal of breakout tanks for hazardous liquid pipelines were updated. The proposed regulations were published for comment in 2007.

COMAR 20.61 Renewable Energy Portfolio Standard Program – Solar Energy Regulations

New regulations were proposed to accommodate the solar carve out established by legislative amendment to the renewable energy portfolio standard. The proposed regulations provide for licensing of generating facilities with a capacity of less than 10 KW, facilitate the recording and tracking of renewable energy credits derived from small solar generators, and establish certain contracting and pricing provisions consistent with the statutory requirements. The proposed regulations were published for comment in 2007.

COMAR 20.79 Applications for the Construction or Modification of Generating Stations – Wind-Powered Energy Facilities

Section 3 of the Renewable Energy Portfolio Standard legislation enacted in 2004 required the Commission to appoint a Technical Advisory Group to develop recommendations on the siting, operation, and monitoring criteria for wind-powered generating facilities as those criteria relate to avian and bat issues. Proposed regulations based upon these recommendations, intended to minimize the impact on birds and bats from the construction and operation of wind-powered energy facilities, were published for comment in 2007.

COMAR 20.45 Service Supplied by Telephone Companies; 20.50 Service Supplied by Electric Companies; 20.55 Service Supplied by Gas Companies; 20.57 Pipeline Safety Enforcement; and 20.95 Transportation – Incorporation by Reference

Various regulations which referenced federal regulations or statutes were revised to comply with § 10-506 of the State Government Article, Annotated Code of Maryland, which was revised in 2005 to allow the incorporation by reference of future revisions of federal regulations and statutes.

D. Transmission/Generation Planning In PJM

The Commission is an active participant in the PJM Regional Transmission Planning Process (RTEPP) and regularly attends the Transmission Expansion Advisory Committee (TEAC) meetings. The TEAC is the primary forum for stakeholders to discuss the Regional Transmission Expansion Plans (RTEP) prepared by PJM.

Planning the enhancement and expansion of transmission capability on a regional basis is one of the primary functions of a Regional Transmission Organization (RTO), such as PJM. PJM develops periodic RTEPs to meet system requirements. RTEP integrates many bulk power system factors including:

- Transmission owner-identified project proposals;
- Long-term firm transmission service requests;
- Generation interconnection requests and retirements;
- Load-serving entity capacity plans (load growth);
- Transmission enhancements to alleviate persistent congestion;

- Distributed generation and self-generation developments;
- Demand response and energy efficiency; and
- Proposed merchant transmission projects.

The RTEP must ultimately be approved by PJM's Board of Directors.

As a regional planning effort, the RTEP determines the best way to integrate projects to provide for the operational, economic, and reliability requirements of the grid. The RTEPP applies reliability criteria over a fifteen-year horizon to identify transmission constraints and other reliability concerns. Commission Staff also participates in the Reliability Planning Process Working Group (RPPWG) that started in 2006 to improve the RTEP process. RPPWG was instrumental in extending the planning process from 5 to 15 years, since transmission line and generation projects require a long lead-time.

1. Transmission Expansion Highlights for 2007

This year's studies include the retirement of generation in Washington, DC: a) the Benning station deactivation of 550 MW; and, b) the Buzzard station deactivation of 256 MW. It also includes the addition of new nuclear generation at Calvert Cliffs, 1640 MWs estimated for 2017. Demand for power on the East Coast has pushed the current grid configuration to its limits. This is evidenced by persistent congestion in central Maryland and northern Virginia (PJM's SWMAAC region). Analysis of the Capacity Emergency Transfer Objective and Capacity Emergency Transfer Limit for the 23 local deliverable areas have passed the deliverability test for 2011. However, PJM is predicting delivery problems in 2012. Consequently, several large interstate transmission projects have been proposed. They are in various stages of the approval and development process. Although not located in Maryland, the following projects have an impact on the grid that serves Maryland:

- A 765/500 kV transformer needs to be replaced at the Kammer substation in West Virginia. The cost for the transformer is \$42 M, expected to be in service by June 2009. Otherwise it will be overloaded in 2012. This is a major AEP interface which has been congested for over 3,300 hours since 2005 with \$220 M in congestion costs. The overload can also be resolved by the Amos-Bedington-Kemptown line (PATH — see below).
- Merchant transmission project O66 Neptune is an underwater HVDC line between Bergen (NJ) and 49th Street in ConEd (NYISO). It withdraws 670 MW firm transmission from PJM and would require \$450M in PJM network upgrades.
- Trans-Allegheny Interstate Line (TrAIL) is 210 miles of 500 kV (Allegheny service territory) and 30 miles 500 kV (Dominion service territory in Virginia) at an estimated cost of \$970M with a June 2011 in-service date. It goes from Prexy (Pittsburg) to Loudoun (Virginia). Public hearings have taken place in Virginia and are scheduled for Pennsylvania.

The MAPP and PATH projects are interstate transmission lines which extend through Maryland:

- The Mid-Atlantic Power Pathway (MAPP) project is a major 500kV loop from Virginia east across southern Maryland and the Chesapeake Bay to Indian River and north through Delaware to New Jersey. This project postpones many future overloads along the way until 2022. It would also be expected to relieve congestion and satisfy load growth for Delmarva, Eastern Mid-Atlantic, and SWMAAC. The large loop poses a possible stability risk for the grid which requires further study. Coordination is expected with a gas pipeline across the bay. Total cost is estimated at \$1.05B with service date to be determined. The next step is board approval. Construction is scheduled to begin in 2010 and end in 2014, but the Commission must approve a CPCN for the transmission lines located in Maryland prior to such construction beginning.

- Potomac-Appalachian Transmission Highline (PATH) has been officially announced as a joint venture between AEP and Allegheny. It is 250 miles of 765kV between Amos (Charleston, WV) and Bedington (WV near Washington County, MD). It is 40 miles of twin-circuit 500 kV from Bedington to Kemptown (Frederick County, MD). PATH was authorized by the PJM Board on June 22, 2007. It is estimated at \$1.8B with a June 2012 in-service date, but any construction of transmission lines in Maryland is subject to the Commission granting CPCN to Allegheny.

BGE Zone Regional upgrades include the following:

- N-2 violations were announced in 2006 by PJM that will require--
 - a) Replacement of a Waugh Chapel 500/230 kV transformer with three single phase transformers of larger capacity for an estimated cost of \$26M and an expected in-service date of June 1, 2012.
 - b) The High Ridge 230 kV substation needs to be rebuilt to a breaker and a half configuration.
 - c) A fourth 230/115 kV transformer, two 230 kV circuit breakers, and a 115 kV breaker at Waugh Chapel for \$17 M by June 1, 2012.
 - d) At Northwest substation-- two 230 kV ring buses, two 230/115 kV transformers, and a new 115 kV station—estimated at \$20 M and expected to be in service by June 1, 2012.
- PJM announced the following upgrades for the BGE zone in 2007:
 - a) New 230 kV breaker needed at Conastone: \$1M by June 1, 2008.
 - b) A second Conastone-Graceton 230 kV circuit is needed by June 1, 2012 for \$13M
 - c) Conastone-Otter Creek 230 kV line upgrade by June 2012 for \$9M
- Although not required by PJM, BGE is also undertaking the following projects which received approval from FERC for incentive rates:
 - a) Improvement of Baltimore's 115 kV cross-town loop. CPCNs are not required for these projects because the lines are underground.

b) Upgrade for of a 115 kV line from Northwest to Finksburg to serve a large radial load. A CPCN was issued for this project in CN9050.

- BGE is also expected to file for an upgrade to its Graceton to Raphael Road line with a new substation at Bagley. The line is presently a single circuit 230 kV line which will be converted to double circuit operation from Raphael Road to Bagley. BGE has determined that additional capacity will be required in Eastern Baltimore County and Harford County by 2011. The estimated cost of the project is \$8.53M.

PEPCO Zone (PHI: Pepco Holdings Inc—Washington, DC area):

- Install third Burches Hill 500/230 kV transformer by June 2012 for \$35M
- Replace existing Brighton 500/230 kV transformer by June 2012 for \$18M
- Delmarva (PHI) has about 10 projects scheduled through 2013 for Distribution Adequacy and Baseline Transmission Reliability at 69-138 kV.

Allegheny Zone (Western Maryland)

- Allegheny obtained Commission approval to reconductor the Doubs-Dickerson 230 kV lines for \$9.4M by June 2009. PJM is requiring the upgrade for reliability. A single contingency involving the loss of either one of the circuits causes an overload on the other. The new conductors will double the current carrying capacity of the lines for summer conditions.
- On December 5, Allegheny announced the installation and start-up of the nation's largest Static VAR Compensator (500 MVAR SVC), located at its Black Oak Transmission Substation, Near Rawlings, MD. The new SVC will enhance the reliability of Allegheny's 500kV Black Oak-Bedington transmission line by quickly changing reactive power (VAR) levels to control the line's voltage. It also mitigates the single contingency outage of the 500 kV Pruntytown-Mt. Storm transmission line.

Southern Maryland:

- Southern Maryland Electric Cooperative (SMECO) is reconductoring a 230 kV line from Aquasco to Holland Cliff. This line was originally permitted with a CPCN in 1976 and energized at 69 kV.

2. New Power Plant Applications

- a. A CPCN application has been received from UniStar, a division of Constellation Energy, and docketed as Case Number 9127. It will generate approximately 1710 MWs from Nuclear Energy at the existing Calvert Cliffs Nuclear site and provide approximately 1600 MWs of baseload generation to the grid. It is scheduled for commercial operation in 2017. Feasibility and Impact studies have been completed by PJM as Queue #Q48. These studies require many network upgrades in the BGE and PEPCO service territories. However, the 500 kV MAPP transmission project extends east and west through Calvert Cliffs and will greatly assist in making the power available to the grid and will reduce the number of upgrades required by the studies.
- b. Constellation has also decided to re-activate the Gould Street generation station which was retired in 2003 due to equipment failure. The gas fired generator will be rebuilt to provide 101 MWs of capacity to the grid. The CPCN application has been docketed as CN 9124 at the Commission.
- c. Competitive Power Ventures (CPV) announced plans for a 600 MW gas-fired plant in Charles County on July 24, 2007. A CPCN application was received by the Commission on December 14 and docketed as CN9129. It is listed in the PJM queues as R17 Morgantown-Oak Grove 230 kV. A CPCN was granted to Free State Electric, LLC for a project on this site known as Kelson Ridge in 2001, CN8843. The project was originally permitted for 1200 MWs.
- d. Constellation has also filed with the Commission on Dec 27, 2007, a CPCN application to reactivate Unit 5 of the existing Riverside Generating station to operate exclusively as a natural gas-fired unit. The unit will offer up to 85 MW for sale to the PJM grid. The current generating capacity of the plant is 261 MW and first went into

operation in 1951. Unit 5 was taken out of service in 1993. The CPCN application has been docketed as CN 9132.

3. Generator Retirements

PJM analyzes the grid for thermal limits and reliability violations for both generator additions and generator retirements. Results of the analysis indicate the need for reinforcement of transmission and distribution systems.

PJM received a deactivation notice from Potomac Power Resources, LLC (PPR) for the Buzzard Point and Benning Road generating stations in Washington, DC. The notice included the intent to: (a) deactivate four units with a total capacity of 64 MW at Buzzard Point generating station by May 31, 2007; (b) retire by May 31, 2012, the remaining 12 units at Buzzard Point, with a total capacity of 192 MW; and, (c). retire by May 31, 2012, two units at Benning Road totaling 550 MW.

The retirements at Buzzard Point have no adverse impact on system reliability for 2007. However, thermal constraints limit SWMAAC imports below CETO values with overloads at Brighton 500/230 kV transformer and the Doubs-Aqueduct 230 kV line. These thermal constraints are expected to be eliminated by the following transmission upgrades:

- At Brighton Substation—Install a second 1000 MVA 500/230 kV transformer and also two 500 kV breakers. Estimated cost is \$33.1M and the in-service date is June 1, /2009.
- Reconductor both Doubs-Dickerson and Doubs-Aqueduct 230 kV circuits. Estimated cost is \$9.6M and the in-service date is June 1, 2009.

Based on 2012 RTEP base case analysis, assuming that Amos to Kemptown 765 kV circuit is in-service, retiring the remaining twelve units at Buzzard Point (total capacity of 192 MW) and units 15 and 16 at Benning Road (total 550 MW) by May 31, 2012 will have an adverse impact on PEPCO sub transmission and distribution system reliability. Transmission and distribution upgrades have been identified that can eliminate the identified overloads. Preliminary analysis indicates a few contingency overloads occur on the BGE/PEPCO transmission system and these can be fixed by 2012.

Without the Amos to Kempton 765 kV circuit and the retirement of the Benning and Buzzard Point generating stations, the BGE/PEPCO load deliverability area (LDA) does not meet deliverability criteria. The first limiting thermal constraint is the Burches Hill-Palmers Corner 230 kV circuits followed by Burches Hill 500/230 kV transformer. Fifteen other thermal and voltage violations follow this one on the 500/230 kV transmission lines. PEPCO has developed a long list of system additions and enhancements required to resolve thermal overloads and voltage violations and address the significant reliability violations expected by 2012 as a result of the Benning and Buzzard Point generation retirements. Furthermore, the single contingency outages of Black Oak-Bedington 500 kV circuit or Hatfield-Black Oak 500 kV circuit cause widespread voltage violations across PEPCO, Dominion northern systems and the Allegheny Power system.

PJM received notice from NRG Energy, Inc. (NRG) of its proposed deactivation of the Indian River Units 1 and 2 with a total capacity of approximately 180 MW. NRG is proposing to mothball Indian River Unit 2 effectively May 1, 2010 and Unit 1 effectively May 1, 2011. PJM Transmission Planning and PHI performed an analysis of the 2010 system with Indian River Unit 2 unavailable and the 2011 system with Indian River Units 1 and 2 unavailable. With the completion of about \$24M in upgrades to the Delmarva zone system, these generators will not be needed for reliability beyond the proposed generation deactivation dates.

E. Maryland Healthy Air Act

The Healthy Air Act (HAA) was enacted by the 2006 General Assembly and signed by the Governor. The HAA established a series of emissions limits at six coal-fired power plants in Maryland: Wagner, Dickerson, Crane, Morgantown, Brandon Shores, and Chalk Point. These plants must reduce emissions of sulfur dioxide (SO₂), oxides of nitrogen (NO_x), and mercury (Hg). There is a phased in cap for NO_x emissions that requires specific reductions for each of the six affected power plants by 2009 and further reductions by 2012. There is also a phase in for SO₂ and mercury emissions that requires specific reductions for each of the six power plants by 2010 and further reductions by 2013. During 2007, a series of hearings were held by the Commission in cases for modifications to the six coal plants owned by Mirant and Constellation. The

larger plants (Morgantown, Chalk Point, Dickerson, and Brandon Shores) will install Flue Gas Desulfurization (FGD) and Catalytic converters to comply with the Healthy Air Act. Constellation’s smaller plants (Wagner and Crane) are testing sorbents, reagents, and alternate fuels for compliance. The HAA legislation also requires that the Governor include the State as a full participant in the Regional Greenhouse Gas Initiative (RGGI) by June 30, 2007. The emissions related upgrades are summarized in Table 4 below:

Table 4: EMISSION RELATED UPGRADES FOR COAL-FIRED PLANTS

Power Plant	Owner	Generating Capacity	Existing Emissions Controls	Retrofits for Healthy Air Act Compliance	Relevant Case Numbers
Dickerson	Mirant	853 MW total, 3 coal units total 546 MW	ESPs, fabric filters, low NOX burners, SOFA	FGD	CN9087
Chalk Point	Mirant	2,400 MW total, 2 coal units total 700 MW	Low NOX burners, ESP, SACR (unit 2)	SCR (\$78M) FGD, sorbent (unit 1) \$1.8M	CN9079 CN9086
Morgantown	Mirant	1, 250 MW	ESP, low NOX burners, SOFA, SCR	Delivery of coal by barge; FGD, sorbent	CN9031 CN9085
Brandon Shores	Constellation	1,370 MW	Low sulfur coal, ESP, SCR	FGD (>\$500M), Sorbent for Hg & SAM, fabric filter	CN9075
Crane	Constellation	Unit 1: 190 MW Unit 2: 209 MW	Fabric filter for particulates at both units	Delivery of coal by barge; Low sulfur coal, sorbents and reagents	CN9048
Wagner	Constellation	Unit 2: 136 MW Unit 3: 359 MW	ESP SCR (unit 3)	Low sulfur coal, sorbents and reagents (<\$10M)	CN9083

F. Regional Greenhouse Gas Initiative (RGGI)

As required by the Maryland Healthy Air Act, Governor O’Malley signed legislation enrolling Maryland as an active member of the Regional Greenhouse Gas Initiative (RGGI, pronounced “Reggie”) in April 2007. RGGI is a voluntary ten state initiative designed to reduce carbon dioxide emissions from fossil fueled power plants

with a capacity of 25 MW or more. Participating states include Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York, Vermont, Maryland, Massachusetts and Rhode Island. Commissioner Brogan serves on the RGGI Board as a representative of the Commission. At the initiative's core, it is a cap and trade program which will initially cap CO2 emissions in each of the 10 participating states starting in 2009, and starting in 2015 will require a 2.5% per year reduction of CO2 the emissions until a 10% reduction has been achieved by the end of 2018. After the cap-and-trade program for power plants is implemented, the states may consider expanding the program to other kinds of sources.

Under the cap-and-trade program, the states will be granted one allowance, or permit, for each ton of CO2 emissions allowed by the annual program cap. Each fossil-fueled plant will be required to have enough allowances to cover its prospective reported emissions. The plants may buy or sell allowances, but an individual plant's emissions cannot exceed the amount of allowances it possesses.

The RGGI states have agreed that at least 25 percent of a state's allowances are to be dedicated to strategic energy or consumer benefit purposes, such as energy efficiency, new clean energy technologies and ratepayer rebates. A power plant may also purchase these allowances for its own use. The funds generated from these sales are to be used for beneficial energy programs. MDE has determined that 100% of its allocation, with a reserve of \$2 should be auctioned to the power companies, but will provide for a 50% holdback in the event the price exceeds \$7 per ton for a continuous 12 month period, in which case MDE will sell 50% of its allocation directly to power companies at the \$7 price for plan years 2009 to 2011.

The RGGI program allows power plants to utilize "offsets"— greenhouse gas emission reduction projects from outside the electricity sector — to account for up to 3.3 percent of their overall emissions. Offset projects provide generators with additional flexibility to meet compliance obligations. A power plant owner/operator will be allowed to select the lowest cost emission reductions and apply them to a portion of the plant's emissions requirement. Examples of offset projects include natural gas end-use efficiency, landfill gas recovery, reforestation, and methane capture from farming facilities. Under the model regulations and the MOU amendment, offset credits may come from anywhere in the United States, but offset projects from outside of the

participating states must take place under the regulatory watch of a cooperating agency in that state. States or other United States jurisdictions not participating in RGGI will need to enter into a MOU with the RGGI state agencies and agree to take on certain administrative obligations to ensure the credibility of the offset projects.

The model regulations and the MOU amendment also streamline and simplify the so-called “safety valve” provisions of RGGI program, which are designed to ensure that the cost of allowances remains affordable. Under the program, if the average annual price of an emission allowance were to rise above \$7, sources will be permitted to use offsets for up to 5 percent of a plant’s reported emissions. If the average price rises above \$10, then sources will be permitted to use offsets for up to 10 percent of a plant’s reported emissions and offsets from international trading programs will be allowed. By allowing offsets to account for a greater percentage of emissions, the program hopes to keep energy prices reasonable while also achieving real reductions in climate changing emissions.

G. 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 to report to the General Assembly on its status and operation. The Department of Human Resources, Office of Home Energy Programs (OHEP) is responsible for fiscal management, staffing, program planning and budget development.

Electric rate payers provide funding for the EUSP which has been set by law at \$37 million per year. Residential, commercial and industrial electricity customers contribute through a universal service charge collected by electric companies. Approximately two-thirds of EUSP funding comes from commercial/industrial customers while about one-third comes from residential customers.¹¹

Families with incomes at or below 175 percent of the Federal Poverty Level (FPL) with electric bill responsibility are eligible for EUSP benefits. During FY 2007, this eligibility level was extended to 200% of the FPL due to the availability of temporary

non-ratepayer funding.¹² The 2000 Census indicates that there are about 278,000 low-income households in Maryland, however all do not have electric bill responsibility.

The EUSP operates on a fiscal year basis. In FY 2007, the OHEP received a total of 101,795 EUSP applications, and disbursed funds to 93,323 eligible low income customers. These levels represent a 9.3% increase in applications processed over the previous year (8,620 applications) and an increase of 12.1% in customers receiving bill assistance (9,470 customers). The increase in enrollment is attributed in part to the higher income guidelines, which provided benefits for 5,194 households within 176 to 200% of the FPL.

Distribution of bill assistance benefits from the EUPS is based on a Commission-approved benefits matrix that accounts for recipients' income level, electrical usage and electricity rates. Based on this benefit distribution methodology, households with lower incomes receive a higher benefit levels. In 2007, bill assistance benefits covered 50 percent of recipients' annual electric bills on average. The average bill payment assistance benefit amount was \$518 in FY 2007 compared to \$410 for FY 2006, and \$362 for FY 2005.

In FY 2007, arrearage retirement assistance was provided to 10,468 customers, with an average arrearage benefit of \$486, compared to \$435 in FY 2006. Arrearage retirement is limited to \$1.5 million of the EUSP \$37 million budget, but Senate Bill (SB) 1 made provisions for an additional \$6 million in corporate tax funds for EUSP use. Of this amount, just over \$3.5 million was used for arrearage retirement assistance payments.

a. EUSP Evaluation Report

The Commission hired PA Government Services Inc. and Innovologie LLC to conduct an evaluation of the EUSP from July 1, 2004, to June 30, 2006. This two year period allowed time to establish a program baseline for the impact evaluation and then to follow participants for an additional year. This evaluation of EUSP included the bill payment and arrearage forgiveness components of the program, but did not include an evaluation of the weatherization component.

¹¹ The residential EUSP charge is 0.37¢ per month.

The purpose of the impact analysis was to determine if the EUSP has influenced participants to improve their utility bill-paying behaviors. The key findings on payment behaviors were that new participants showed no improvement on each of the six measures in the approximate one year period following their participation in the program. The evaluation also found however that new participants' bill payment, arrearage amounts and service connection would have been worse if they had not participated in the program. This conclusion was supported by the observation that all non-participant groups showed an overall worsening of bill payment behavior. Continuing participants improved on the six measures of bill payment behavior, which suggests that sustained EUSP participation may allow participants to improve their behaviors. The evaluation report concluded that EUSP is making significant progress in meeting its goals and is helping households with high annual electric bill burdens.

H. Utility Service Protection Program – Case No. 8091

The Commission issued Order No. 67999 in Case No. 8091, which established the Utility Service Protection Program (“USPP”) as required by Public Utility Companies Article (“PUC Article”) §7-307 of the Maryland Annotated Code. Regulations governing the USPP are contained in Chapter 20.31.05 of the Code of Maryland Regulations. The USPP is available to utility customers who are eligible and have made application for a grant from the Maryland Energy Assistance Program administered by the Office of Home Energy Programs.

The USPP is designed to protect eligible low-income residential customers from utility service termination during the winter by helping low-income customers avoid the accumulation of arrearages, which could lead to service terminations and by providing equal monthly utility payments for participants based on the estimated annual service to the household. The USPP allows customers in arrears to restore service by accepting the USPP equal monthly payment plan and by bringing outstanding arrearages down to \$400. The program encourages the utility to establish a supplemental monthly payment plan for customers with outstanding balances to reduce those arrearages.

¹² Maryland Department of Human Resources, Community Services Administration, Office of Home Energy Programs, *FY 2007 Annual Report to the Maryland Public Service Commission*, October 10, 2007.

The data collected for the 2006-2007 winter heating season show that the USPP continued to accomplish its goal of minimizing the number of service terminations among low-income customers. The number of USPP participants in Poverty Levels 1, 2 and 3 for the 2006-2007 winter heating season was 1,063 greater than the number of participants for the 2005-2006 winter heating season. Seven tenths of one percent (0.007) of the USPP population was terminated during the 2006-2007 winter heating season compared to 0.6 percent (0.006) of the USPP participants terminated during the 2005-2006 heating season. At least half of Maryland's utility companies did not terminate any USPP participants during the 2006-2007 winter heating season.

V. OTHER ISSUES

A. 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, 2007, there are more than 193 million shares of PHI common stock outstanding and are held by over 65,000 shareholders. With respect to ownership of PHI stock by Maryland residents, PHI's records show that 11,786 shareholder accounts, representing 7.2 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 31, 2007, the Parent had 274,161,140 shares of its common stock outstanding, of which 6.2 million or about 2.3% were held by employees in the ESPP Plan and the Tax Deferred Savings Plans. As of July 31, 2007, the Parent had approximately 792 registered stockholders with Maryland addresses, holding approximately 256,371 shares of Parent common stock.

(c) As of September 30, 2007, 24,167 Maryland residents representing 60.67% of Constellation Energy Group, Inc. (Parent Company of Baltimore Gas and Electric Company) total common shareholders, owned 11,347,836 or 6.23% of the outstanding shares of common stock. In addition, Company employees (many of whom are Maryland residents) own additional shares of common stock through the Company's Employee Savings Plan.

Constellation Energy Group, Inc. established an Employee Savings Plan to provide employees with a convenient way to save toward retirement and to increase their ownership interest in the Company. Under this Plan, employees may save up to 50% of their income and invest such savings in any of the Company's common stock, 11 mutual funds, 12 Target Dated Funds or a combination of all 24 investment options. As of September 30, 2007, 5,651,896 shares of common stock were held in the Employee Savings Plan for current and former employees, including approximately 346,740 shares allocated during the current reporting period.

(d) The Potomac Edison Company d/b/a Allegheny Power is a wholly-owned subsidiary of Allegheny Energy, Inc. (AE). In 2007, AE continued its Employee Stock Ownership and Savings Plan. Approximately 86% of AE's employees are currently contributing to the Plan and 4,051 participants have AE stock as part of their account balance within the Plan. As of December 31, 2006, 1,499 Maryland residents held

643,446 shares of AE stock as stockholders of record, which represents approximately 7.11% of all AE registered stockholders and 0.39% of all shares.

(e) Washington Gas Light Company (WGL), provides the following information from the Investor Relations Department regarding its efforts to broaden ownership of the Company's capital stock, particularly among residents of Maryland and Company employees. Currently, approximately 27.12% of registered shareholders reside in Maryland, and represent 4.63% of the Company's outstanding common shares. WGL employees also actively participate in the ownership of the Company. As of October 1, 2007, 123 employees were actively participating in the Company's Dividend Reinvestment and Common Stock Purchase Plan, and approximately 1,121 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 Maryland Company 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, 2007, there were 26,857 Maryland residents who held Verizon stock.

B. Energy Efficiency And Conservation

Demand Side Management (DSM) refers to efforts to manage or reduce energy consumption through the implementation of conservation or energy efficiency measures. This source offers the most cost effective way to meet expected loads while reducing costs. DSM supports system reliability, reduces congestion, and limits environmental impacts, while reducing overall energy costs. It is important that these cost-effective resources be exploited to the maximum extent possible. The Commissions' Interim Report notes that the PSC will, as part of a pending proceeding, require the utilities to implement aggressive and cost-effective demand management and energy conservation programs consistent with Governor Martin O'Malley's "EmPower Maryland" initiative.¹³

¹³ Interim Report of the Public Service Commission of Maryland to the Maryland General Assembly, Part I: Options for Re-Regulation and New Generation, December 3, 2007, page 2. EmPower Maryland (reducing 2007 per capita energy usage 15% by 2015) has set one of the most aggressive goals in the nation.

1. Statutory Requirements

The Maryland Electric Customer Choice and Competition Act (Act) was enacted at the conclusion of the 1999 General Assembly legislative Session. The Act included a requirement that the Commission issue a report to the General Assembly on or before February 1, 2001, in consultation with the Maryland Energy Administration, on the status of conservation and energy efficiency programs and a recommendation for the appropriate funding level for these programs. This report was filed as required.¹⁴

In more recent legislative sessions, the General Assembly enacted revisions to § 7-510(c) of the PUC Article to grant the Commission authority:

By regulation or order, as part of the competitive process, [to] require or allow the procurement of cost-effective energy efficiency and conservation measures and services with projected and verifiable energy savings to offset anticipated demand to be served by standard offer service and the imposition of other cost-effective demand-side management programs.

Most recently, the General Assembly in Senate Bill 400 directed the Commission to consider establishing a long-term goal for savings of the total residential retail energy consumed in a year in an electric company's service territory through the procurement and implementation of cost-effective energy efficiency conservation programs and services under §§ 7-211 and 7-510(c)(4)(ii)2C of the PUC Article. The Commission is required to report its findings to the General Assembly on or before December 31, 2008.

2. Demand Side Management Activities

By Order No. 81448 dated June 8, 2007, the Commission established a collaborative process to consider four issues pertaining to advanced metering initiatives and demand side management programs (AMI/DSM collaborative). The Commission directed participation in the collaborative by BGE, Choptank Electric Cooperative (Choptank), Delmarva, The Potomac Edison Company d/b/a Allegheny Power (AP), PEPCO, Southern Maryland Electric Cooperative (SMECO), and the Technical Staff of

the Commission (Staff), and further invited participation in the collaborative from the Office of People's Counsel (OPC), other interested State agencies, electricity suppliers, providers of advanced metering and DSM equipment and services, environmental and public interest groups, and consumer organizations.

a. Baltimore Gas and Electric Company

On June 4, 2007, BGE filed with the Commission an application seeking authority to implement three "fast-track" Energy Star conservation and energy efficiency programs. The proposed programs are as follows: (1) compact fluorescent light bulbs (CFLs); (2) window air conditioner replacement; and (3) certain large appliances (such as clothes washers, freezers, and refrigerators). The "fast-track" programs are designed to take advantage of "low hanging fruit" on an expedited basis.

The purpose of these programs is to provide residential customers with an opportunity to reduce electricity usage and electricity costs, and to enjoy energy cost savings. These "fast-track" programs are derived from the recommendations of a report prepared by the American Council for an Energy Efficient Economy (ACEEE) for BGE on its potential residential energy efficiency programs.¹⁵ Based on the report, BGE estimated that the three "fast-track" programs will cost about \$2 million and will save customers approximately \$5.2 million.

After considering the matter at the June 20, 2007 Administrative Meeting, the Commission approved the "fast-track" conservation and energy efficiency programs. Additionally, the Commission stated that it reserved the right to extend the cost recovery or otherwise revisit the cost recovery method. The Commission also directed BGE to file monthly reports advising the Commission of the implementation progress, penetration rates, program expenditures and other relevant matters. The current efficiency charge, effective November 17, 2007, was set at 0.067 cents per kWh through June 30, 2008.

As of December 23, 2007, BGE indicated that it has spent \$2.5 million in costs for the three "fast-track" programs. This amount represents an increase of \$0.7 million in program costs from the amount of \$1.8 million of the November 30, 2007 Report.

¹⁴ See "Report on Energy Efficiency and Conservation Programs (Demand-Side Management)."

¹⁵ See "Residential Energy Efficiency Program Design Recommendations: Report to BGE from the American Council for Energy Efficient Economy (ACEEE), January 2007." BGE has submitted the report with its filing of January 23, 2007.

According to BGE, the three “fast-track” programs have achieved estimated annual bill savings of \$4,491,084 (compared with \$3,000,089 reported in the November Report) and \$40.7 million (versus \$27.2 million shown in the November Report) in life cycle bill savings. BGE has submitted with its January 4, 2008, filing a summary of the estimated electric energy impact. Some of the highlights of the “fast-track” programs are as noted below.

- 624,493 of the discounted CFLs have been purchased as of December 23, 2007. This figure represents an increase of 203,677 in CFL mark-downs from the 420,816 in CFL mark-downs as of November 30, 2007.
- The 624,493 CFL bulbs result in an estimated 32.7 million kWh saved annually (an increase of 10.9 million kWh over the 21.8 million kWh of the November Report) and 14,706 KW (compared with 9,821 KW shown in the November Report). Life cycle savings for the fast-track programs, based on Energy Star assumptions, result in approximately 301.1 million kWh savings (compared with the 201.26 million kWh savings noted on the November Report).
- 503 room air conditioners were installed to low-income customers as of December 23, 2007 compared with 248 room air conditioners that were installed as of September 28, 2007. These 503 room air conditioners resulting in 109,714 kWh annual savings (1,426,282 kWh lifetime savings). Whereas, the 248 room air conditioners resulting in 53,842 kWh annual savings (699,946 kWh lifetime savings).
- As of December 23, 2007 there were 4,157 processed appliance rebates (1,837 clothes washer, 2,198 refrigerators, and 122 freezers).

b. BGE’s Smart Energy Savers Program

On October 26, 2007, BGE filed with the Commission an application seeking authority to implement six Energy Efficiency and Conservation Programs, collectively are referred to as “Energy Savers Program.” The proposed programs are as follows: (1) ENERGY STAR[®] Products; (2) Residential Gas and Electric HVAC; (3) Residential ENERGY STAR New Construction; (4) Residential Retrofit; (5) Low Income; and (6) Small Commercial Energy Efficient Rebate. BGE also requested Commission approval,

with an effective date of January 1, 2008, in order to implement these programs by May 1, 2008.

BGE estimated that the conservation programs will cost \$274,232,718 (\$237,353,053 for the 5 residential programs and \$36,879,665 for the small commercial program (a basket of energy efficiency programs)) over the next eight years (2008-2015). BGE proposes to amortize the program costs over five years. BGE reported estimated savings for the electric programs of 964,266 megawatt-hour (MWh) in energy reductions (794,266 MWh in energy reductions for the residential class and 170,660 MWh in energy reductions for the small commercial class). BGE estimated 15,079,781 therms in total gas energy reductions (15,034,707 therms for the residential class and 45,074 therms for the small commercial class). According to BGE, the conservation usage reductions yield an estimated annual electric energy use reduction of 5.3% for the electric residential and small commercial classes and 3.2% gas use reduction for the gas residential and small commercial. These percentages represent BGE's contribution to the EmPower Maryland goals.¹⁶

c. Potomac Electric Power Company and Delmarva Power and Light Company

On March 21, 2007, PEPCO and Delmarva filed applications for authority to establish DSM Surcharges, AMI Surcharges, DSM Collaborative, and AMI Advisory Groups. Each utility has produced a document entitled Pepco or Delmarva's Blueprint for the Future Plan (Blueprint Plan or Plan), which ultimately will be introduced across all of Pepco Holdings Inc.'s (PHI) electric distribution companies and their various jurisdictions.¹⁷ The purpose of the Company's Blueprint for the Future is to set forth Pepco and Delmarva's comprehensive visions of the future whereby the companies'

¹⁶ Governor Martin O'Malley announced EmPower Maryland on July 2, 2007. EmPower Maryland is an initiative that envisions a 15% per capita reduction statewide in total electric usage by 2015. On August 28, 2007, the Commission issued Order No. 81637, in Case No. 9111, which directed each electric company in Maryland to file plans with interim electric usage reduction goals for 2009, 2011, and 2013 to meet targets representing (a) 25% and 50% of the EmPower Maryland goals based upon a "base case" growth projection, and (b) 50% of the EmPower Maryland goal based upon a "high case" growth projection.

¹⁷ PHI is the holding company of the Atlantic City Electric Company, the Delmarva Power & Light Company, and the Potomac Electric Power Company. Collectively these companies deliver electricity to customers in New Jersey, Delaware, Maryland, the District of Columbia, and Virginia. In addition Delmarva delivers natural gas to customers in Delaware.

Maryland customers will have increased utilities provided energy efficiency, demand response, and pricing options that are enabled by new programs and technology.

The critical components of each utility's Blueprint Plan are: 1) comprehensive utility provided energy efficiency programs that are designed to provide savings opportunities for all electric distribution customers; 2) demand response programs designed to reduce electricity demand during periods of high market prices; 3) deployment of an advance metering system for all customers to support time differentiated rate options for customers and to provide customers with improved electric distribution service; and, 4) proposed cost recovery mechanisms that permit PEPCO and Delmarva to recover utility investments to implement the Blueprint Plan.

DSM programs are designed to enable customers to better control their electric bills. The proposed DSM programs would fall into two categories: Energy Efficiency and Demand Response. Energy Efficiency programs such as home performance, HVAC, and lighting, are designed to lower customer energy usage through more efficient lighting, air conditioning, and appliances, which lead to lower electric bills. Demand Response programs are designed in a manner that allows the customer to "respond" to price signals, either actively or passively, that will lower energy demand during critical periods of high electricity prices. A smart thermostat can be programmed to automatically increase the thermostat setting in response to high electricity prices.

PEPCO and Delmarva have proposed that a utility specific DSM Collaborative be formed in order to review and discuss each utility's proposed DSM programs. Both utilities have indicated that they would have the final say on what DSM programs will be established. In order to recover costs associated with DSM programs, Pepco and Delmarva request that the Commission establish a DSM electric distribution surcharge mechanism that would recover all DSM expenditures, other than smart thermostat related costs, over a five year period. Program costs would be allocated to each rate class eligible to participate in each implemented program. The Companies' DSM programs costs and impacts are as noted below.

On September 19, 2007, by Order No. 81618, the Commission directed PEPCO and Delmarva to implement the Residential Compact Fluorescent Light (CFL) programs and associated Energy Awareness Campaign necessary to support the CFL programs.

According to the order, Pepco and Delmarva are allowed to recover the costs associated with the CFL programs and both utilities are required to submit quarterly CFL program reports to the Commission. The current efficiency charges for Pepco and Delmarva are \$0.04 per kWh and \$0.06 per kWh, respectively. For the other DSM programs proposed by Pepco and Delmarva, the Commission will issue a separate Order addressing these programs.

Additionally, on October 26, 2007, pursuant to Order No. 81637 in Case No. 9111, PEPCO and Delmarva each filed a comprehensive energy efficiency, conservation and demand plan designed to achieve specified usage reduction goals in total electric consumption by calendar year 2015. Further consideration of these filings will be addressed in 2008 by the Commission.

d. Allegheny Power Company

On September 14, 2007, Potomac Edison Company d/b/a Allegheny Power (Allegheny or Company) filed with the Commission an application seeking authority to implement two “fast-track” “Energy Star” conservation and energy efficiency programs. The proposed programs included (1) compact fluorescent lighting (CFL); and (2) residential awareness campaign. With this filing, Allegheny attached Supplement (Energy Conservation Surcharge) to P.S.C. Md. No. 53 to recover the costs associated with the “fast-track” programs. Allegheny requested an effective date of October 3, 2007 to implement these programs.¹⁸

Allegheny estimated that the two “fast-track” programs will cost about \$2,501,600 (\$2,405,600 for the CFL and \$96,000 for the awareness campaign) and will save customers approximately \$6,843,700. Allegheny proposed to recover the costs through a fixed rate per customer charge of \$0.96 per month for a twelve-month period beginning October 3, 2007. Allegheny believes that through the CFL program, residential electricity consumption can be reduced by 105,000 megawatt-hour (MWh). Demand savings derived from the programs are estimated at 10 MW.

Allegheny estimates an environmental cost saving of \$0.0079 per kWh that yields a net present value of \$7.48 million in program benefits. The Company’s analysis shows

¹⁸ It should be noted that this effective date coincides with the National ENERGY STAR® “Change a Light” campaign, which encourages commitment to energy efficiency light bulb.

a total resource cost ratio of 2.38, which implies that for every dollar spent on CFL, \$2.38 is generated in lifetime energy savings. On September 26, 2007, the Commission authorized Allegheny to implement the two fast-track Energy Star and energy efficiency programs. Due to customer concerns, the Company has voluntarily withdrawn the customer surcharge of \$0.96.

VI. MAJOR CASES AND DECISIONS

A. Gas and Electric Utilities

1. The Matter of the Electric Universal Service Program – Case No. 8903

See Section IV, Major Activities and Special Projects, Subsection G, for a discussion of this case.

2. 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 issues regarding competitive selection of electricity supplier/standard offer service and default service plans. On August 25, 2006 the Commission's Technical Staff filed a Report on the 2006 Standard Offer Service (SOS) Procurement Improvement Process (Report). In Order No. 81102 filed November 8, 2006 in Case No. 9064, the Commission noted its approval of the Report in this case.

In 2007, the investor-owned utilities have filed various reports regarding their wholesale electric supply procurement and SOS, and also tariff revisions in this docket. With respect to tariff filings, on May 1, 2007 The Potomac Edison Company filed revised tariff pages proposing to introduce SOS generation rates effective June 1, 2007. On May 2, 2007, Potomac Electric Power Company filed, in this docket and other dockets (Case Nos. 8908, 9037 and 9058) revised SOS service riders and rate schedules in compliance with Order No. 81019 (issued August 28, 2006 in Case No. 9056, *Re Commission's Investigation Into Default Service for Type II SOS Customers*). On June 8, 2007, Baltimore Gas and Electric Company filed revisions to Riders 8 and 10 of their Electric Retail Tariff in compliance with the Phase II settlement agreement.

3. The Application of Savage Mountain Wind Force, LLC for a Certificate of Public Convenience and Necessity to Construct a 40 MW Generating Facility in Allegheny and Garrett Counties, Maryland – Case No. 8939

Case No. 8939 is discussed in the 2002 and 2003 Annual Reports. It involves the application of Savage Mountain Wind Force, LLC, filed on August 29, 2002, for a Certificate of Public Convenience and Necessity (CPCN) to construct a 40 MW wind energy electric generating facility in Allegheny and Garrett Counties, Maryland. On March 20, 2003 the Commission issued Order No. 78337 adopting the Proposed Order of Hearing Examiner granting a Certificate of Public Convenience and Necessity with various commitments made by Savage Mountain Wind Force.

On May 29, 2007, Savage Mountain filed a Motion for Extension of Five Year Deadline for Completion of Construction, which would extend the original deadline by an additional two years to 2010. On June 25, 2007, D. Daniel Boone filed an Opposition to Savage Mountain's Motion, arguing that Savage Mountain's request violated an Agreement of Stipulation and Settlement reached by the parties in 2003 and approved in Order No. 78337. After further comments by Savage Mountain, Mr. Boone, and the Commission Staff, the Commission, in Order No. 81587 issued on September 5, 2007, granted Savage Mountain's Motion. The Commission thus extended the date for completion of the Savage Mountain wind electricity generating turbines to March 20, 2010.

4. The Matter of Columbia Gas of Maryland, Inc.'s 2003-2007 Strategic Gas Plan – Case No. 8952

This case is discussed in the 2004 and 2005 Annual Reports. On February 3, 2005 Columbia Gas of Maryland, Inc. filed its Strategic Gas Supply Plan. Columbia Gas, the Office of Peoples' 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, which allows Columbia Gas to use hedges to mitigate natural gas price volatility.

On February 1, 2007, Columbia Gas filed a Request to Modify and Convert Price Portfolio Program to Permanent Program. In the Request, the company sought

Commission permission to continue to enter into gas hedges through October 2007 for the winter of 2007-2008 and through October 2008 for the winter of 2008-2009. Columbia Gas also sought to convert what currently is a pilot program into a permanent program and to make several other modifications to its parameters.

Following a period of comment and discussion among the parties, on June 15, 2007, Columbia Gas, Staff, and People's Counsel filed a Stipulation and Agreement extending the current Program in pilot form to allow Columbia Gas to continue to enter into hedges through October 2007 for the winter of 2007-2008 and through October 2008 for the winter of 2008-2009. Thus, they propose that hedging for the winters of 2007-2008 and 2008-2009 would be fully carried out pursuant to the design of the current program. The Stipulation also extends the proposed modified Price Portfolio Program to 2011, but did not make the pilot program permanent. However, parties may seek to extend or convert the modified Price Portfolio Program to a permanent program prior to its termination.

By Order No. 81605 issued on September 12, 2007, the Commission approved the June 15, 2007 Stipulation and Agreement and directed Columbia Gas to operate its Price Portfolio Program consistent with Order No. 81605 and the Stipulation and Agreement.

5. 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 prior Annual Reports, concerns an application by Catoctin Power, LLC for a Certificate of Public Convenience and Necessity (CPCN) to construct a nominal 600 MW generating facility in Frederick County, MD. As noted in the 2005 Annual Report, the CPCN was granted by Order No. 79923 issued on April 25, 2005, with various conditions included.

On October 16, 2006, Catoctin Power filed a motion to amend certain conditions of the CPCN, which proposed revisions were reviewed by the State's Power Plant Research Program ("PPRP") and further revised. The revisions extend deadlines for

certain CPCN conditions, and also incorporate new environmental standards promulgated since the grant of the CPCN in April 2005. On October 25, 2006, the proposed motion for amendment was preliminarily approved pending notice to the public for receipt of comments and subject to revision. On January 9, 2007, PPRP indicated it reached agreement with the company with respect to amended conditions, and no party opposed the amendments. Accordingly, by Order No. 81221 entered on January 23, 2007, the Commission authorized Catoctin Power to amend the CPCN consistent with the revised conditions.

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

As noted in prior Annual Reports, on November 4, 2004, Mirant Mid-Atlantic, LLC (Mirant) filed its application to construct a coal unloading facility at its Morgantown Generating Station in Charles County, Maryland. On August 17, 2005, following litigation noted in the 2005 Annual Report, the Hearing Examiner issued a Proposed Order granting Mirant a Certificate of Public Convenience and Necessity for construction of the barge unloading facility. The Proposed Order was not appealed and became Commission Order No. 80270 on September 19, 2005.

On December 15, 2006, Mirant and the Power Plant Research Program of the Maryland Department of Natural Resources filed a Joint Motion to Amend the Certificate. The amendment sought to modify the design of the barge unloading facility initially authorized. As a result of concerns raised by a number of citizens, extensive hearings were held to receive citizen comment and evidence to support or oppose the motion. At the conclusion of the process, the Hearing Examiner issued a Proposed Order on June 19, 2007, which would grant the motion amending the Certificate of Public Convenience and Necessity and authorize modification of the coal barge unloader to allow operation of the unloader as a moveable device rather than as a stationary device. The Proposed Order was not appealed and became Order No. 81521 of the Commission on July 20, 2007.

A motion for rehearing of the final order filed by the Swan Point Property Owners Association on August 3, 2007 was withdrawn on August 17, 2007.

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

This case, noted in the 2005 and 2006 Annual Reports, was instituted in April 2005 as an inquiry into natural gas leaks on Washington Gas Light Company's (WGL) Maryland Distribution System. The Company was directed to file documents showing its plans to find and repair the gas leaks, as well as file monthly reports. WGL has indicated in various reports and in proceedings before the Federal Energy Regulatory Commission that it believes increased supplies of liquefied natural gas (LNG) in its system have produced the increased leaks it has experienced, and the Company has injected hexane into its gas supply as a proposed remedial measure.

On June 27, 2006, this matter was delegated to the Hearing Examiner Division, with the efficacy of the hexane injections to be considered in the course of the proceeding. Following hearings held in February 2007, a Proposed Order of Hearing Examiner was issued on April 2, 2007, in which the Hearing Examiner determined that injection of LNG was a contributing factor to the increased number of leaks experienced on the WGL distribution system, and injection of hexane gas may cause a re-swelling of seals and ameliorate the leak problem. The Proposed Order would also authorize recovery of prior use of hexane as a prudent and reasonable remediation effort, and the Company must continue certain reports.

Following appeal by the Office of People's Counsel, the Commission affirmed the Proposed Order by Order No. 81714 entered on November 16, 2007, while also keeping the proceeding open to monitor the company's actions with respect to the gas leaks.

8. 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

As noted in prior Annual Reports, on November 11, 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.

The Hearing Examiner issued a Proposed Order on May 9, 2006 accepting a settlement agreement and granting the CPCN to modify the Crane Generating Station by constructing a coal barge unloading and material handling system at the station. The Proposed Order was not appealed and became final as Commission Order No. 80795 on May 17, 2006.

On May 21, 2007, Constellation Power Source Generation, Inc. filed a Motion to Amend Condition 28 of the CPCN. The Power Plant Research Program of the Department of Natural Resources filed, on May 31, 2007, a letter indicating they did not object to the amendment of the CPCN. On June 11, 2007 the Commission issued Order No. 81453 granting the requested amendment to the CPCN.

9. The Commission's Investigation into Default Service for Type II Standard Offer Service Customers – Case No. 9056

As noted in the 2006 Annual Report, in Order No. 80272 issued in Case No. 9037 on September 20, 2005, the Commission determined that the existing Type II Standard Offer Service (SOS) for medium-sized commercial customers would cease at the end of May 2007 and directed its Technical Staff (Staff) to convene a working group to discuss the future of Type II SOS after that date. On January 26, 2006, the Staff filed a report on the working group's progress indicating that no consensus was likely to be achieved. As a result, the Commission established Case No. 9056 on February 17, 2006 for the purpose of determining what form of SOS or default service will be made available to Type II customers after May 2007.

Following hearings, on August 28, 2006, the Commission issued Order No. 81019 finding that beginning June 1, 2007, contracts for SOS electric supply should be based upon quarterly bids for service for Type II commercial customers. Potomac Electric Power (Pepco) and Delmarva Power & Light Company (Delmarva) filed an Application for Rehearing on September 27, 2006 challenging the quarterly bidding structure. On November 2, 2006 the Commission denied the Application for Rehearing in Order No. 81093.

On May 11, 2007, the Commission issued a Notice of Hearing indicating that on June 7, 2007 a hearing would be held for the Staff and its consultant to brief the Commission on the conduct of the solicitations and results for the Type II SOS. On May 24, 2007 the Notice of Hearing was amended to include The Potomac Edison Company d/b/a Allegheny Power, in addition to Baltimore Gas and Electric Company, Delmarva Power & Light Company, and Potomac Electric Power Company, who were specified in the original notice. The Commission issued Order No. 81449 on June 8, 2007 finding that the bidding was conducted appropriately according to the established procedures and ordering that the utilities may proceed to finalize their contracts in accordance with the processes set forth in the Request for Proposals and applicable Commission orders.

On July 25, 2007, the Commission Staff filed a Report on the 2007 SOS Procurement Improvement Process in both this docket, Case No. 9056, and Case No. 9064, *Re Competitive Selection of Electricity Supplier, Standard Offer, or Default Service*. Following a hearing to receive comments on the Report held on September 5, 2007, by Order No. 81603 issued September 11, 2007 in Case Nos. 9056/9064, the Commission approved modifications to the SOS procurement process contained in the Report, including the bidding schedule, while noting it has docketed Case No. 9117 to consider possible changes to SOS procurement methods. Also, by Order No. 81659 also jointly docketed in Case Nos. 9056/9064 on October 16, 2007, the Commission modified the October 2007 SOS procurement process to achieve greater time diversity in going to market to procure SOS power load as beneficial to ratepayers.

Periodic hearings will continue in this docket for briefing to the Commission on the conduct of Type II SOS solicitations and results.

10. The Inquiry into Time-Based Metering and Communications Standards Under Title VII, Subtitle E, Energy Policy Act of 2005 (16 USC § 2621) – Case No. 9059

As noted in the 2006 Annual Report, on April 4, 2006, the Commission instituted Case No. 9059 as an inquiry to consider the appropriateness of implementing a "smart metering" standard arising from the Energy Policy Act of 2005, which provides for electric utilities offering customers a time-based rate schedule. Under such a schedule,

rates would vary during different time periods reflecting differences in utility costs of generation or purchase of electricity at the wholesale level, with time-based rate schedules enabling participating customers to manage their energy use (and cost) through advanced metering and communication technology.

Comments were filed by utilities and other interested parties, with utilities noting in part their programs offered to customers. The Commission Staff recommended a working group consider whether to adopt the time-based metering and communications standard of the Energy Policy Act and to expand the current time-based metering options in Maryland, and a Demand Response and Distributed Generation Working Group was established on September 13, 2006 to explore the merits of implementing advanced metering, demand response, and distributed generation initiatives.

In a notice issued February 7, 2007, the Commission advised the jurisdictional electric utilities that it will not direct the wholesale implementation of time-based rate schedules through advanced metering and communications technology at this time, but will continue to evaluate standards and other demand response measures through its work group and specific filings.

11. The Inquiry into Interconnection Standards Under Title VII, Subtitle E. Energy Policy Act of 2005 (16 USC § 2621) – Case No. 9060

As noted in the 2006 Annual Report, on April 4, 2006, the Commission instituted an inquiry for consideration of the appropriateness of implementing an interconnection standard contained in the Energy Policy Act of 2005 with respect to interconnection of on-site electric generators to the local distribution network.

After filing of comments by numerous parties, on October 17, 2006 the Commission directed the establishment of a Small Generator Interconnection Standards Working Group to be facilitated by the Commission Staff. The Working Group was to address the technical and policy issues involved in developing interconnection standards that strike the appropriate balance between the potential benefits resulting from the interconnection of distributed generation and the safety and reliability of the distribution system.

On April 20, 2007, the Staff submitted a report of the working group with recommendations regarding standardization of rules and practices for the connection of small generators to the electric distribution system. After comments by utilities and other parties, Staff submitted a supplemental report on August 7, 2007, which included revised Proposed Small Generator Interconnection Rules.

12. The Application of Chesapeake Utilities Corporation for Authority to Revise Its Rates and Charges for Gas Service – Case No. 9062

As noted in the 2006 Annual Report, on May 1, 2006, Chesapeake Utilities Corporation filed an application for an increase in the natural gas base rates and services charged its customers, seeking additional annual revenues of \$1,137,000, as well as a temporary rate increase of \$850,000.

On July 13, 2006 Chesapeake Utilities withdrew its request for a temporary rate increase, and on September 7, 2006 a Joint Stipulation and Settlement Agreement was filed by the parties. Following an evening hearing held on September 15, 2006, by Order No. 81054 entered on September 26, 2006, the Commission accepted the terms of the settlement stipulation. The stipulation provided for increased revenues of \$780,000, which results in a rate of return of 9.03 percent. In addition, the settlement stipulation also required the company to file a depreciation study in early 2007 that would be the subject of a Phase II proceeding, with revised rates implemented upon the completion of the Phase II depreciation review.

Chesapeake Utilities filed the Phase II Depreciation Study on April 9, 2007, and the matter was delegated to the Hearing Examiner Division. In a Proposed Order issued November 20, 2007, the Hearing Examiner accepted a Stipulation and Settlement Agreement which reduced depreciation expense and rates to customers effective December 1, 2007, resulting in a reduction of \$132,155 to the annual base rates previously authorized. The Proposed Order was not appealed and became Order No. 81724 on November 29, 2007.

13. The Matter of the Competitive Selection of Electricity Supplier/Standard Offer or Default Service for Investor-Owned Utility Small Commercial Customers; and for The Potomac Edison Company d/b/A Allegheny

Power's, Delmarva Power and Light Company's and Potomac Electric Power Company's Residential Customers – Case No. 9064

As noted in the 2006 Annual Report, on May 10, 2006, the Commission instituted Case No. 9064 as a major policy review proceeding regarding the provision of Standard Offer Service (SOS) to residential and small commercial customers of the large investor-owned electric utilities. Senate Bill 1 of the 2006 Special Session of the General Assembly also included provisions requiring the Commission to consider a wide variety of issues associated with SOS as well as restructuring of the electric industry in Maryland, some of which issues are considered in this case and some in Case No. 9063, *Re The Optimal Structure of the Electric Industry in Maryland*. The Commission has included proposals and alternatives that can be implemented in time for procurement of generation for SOS beginning June 1, 2007 in Case No. 9064, while Case No. 9063 will review proposals and alternatives beyond the upcoming bid period.

Order No. 81102 was issued on November 8, 2006 and contains directives for the utilities' procurement of SOS electric supply for residential and small commercial customers for the period beginning June 1, 2007. These directives provide for two-year supply contracts (rather than a single year as previously bid), with bidding twice per year. Also, Allegheny Power's residential SOS was not affected at that time as residential rate caps remain in effect.

During 2007, the Commission has conducted periodic public hearings and issued various orders with respect to review of the results of bidding for Residential and Type I commercial customer SOS bids. These hearings have included testimony from the Commission's SOS consultant as to the conduct and results of the bid process to assure the biddings were conducted in conformance with Commission requirements and appropriate security measures were in place during the bid process.

By Order No. 81603 issued September 11, 2007, the Commission approved a 2007 SOS Procurement Improvement Process Report filed by the Staff. In addition, the Office of People's Counsel had previously requested reconsideration of the bid process established in Order No. 81102, and the Commission has instituted Case No. 9117 for the

purpose of considering possible changes to residential and small commercial SOS procurement methods.

Also, by Order No. 81659 entered on October 16, 2007 in Case Nos. 9064 and 9056 (*Re The Commission's Investigation into Default Service for Type II Standard Offer Service Customers*), the Commission modified the October 2007 procurement process for residential and certain commercial customers Standard Offer Service while approving bid plans of Pepco, Delmarva, and BGE, as well as approving a modification to the proposed Potomac Edison bid plan. These modifications are generally intended to increase the time diversity in going to market to procure SOS power load as being beneficial to ratepayers.

Periodic hearings will continue in this docket for briefing to the Commission on the conduct of solicitations and review of the procurement results.

14. The Investigation into Southern Maryland Electric Cooperative, Inc.'s Service Line Extension Charges – Case No. 9065

This case was discussed in the 2006 Annual Report. On March 2, 2006, Southern Maryland Electric Cooperative, Inc. (SMECO) filed revised tariff pages proposing to modify its line extension tariff – the amount it charges to extend its electric service line to new construction. The Commission accepted SMECO's proposed tariff revisions for filing on March 15, 2006. On April 14, 2006, Amy and Chris Chaffee (the "Chaffees"), SMECO customers and local homebuilders, requested that the Commission reconsider SMECO's line extension increase. On May 23, 2006, the Commission determined that a hearing was necessary to resolve this matter and delegated Case No. 9065 to the Hearing Examiner Division.

Following submission of testimony, a hearing for cross-examination was held on October 24, 2006, with a hearing for public comment that same evening. Briefs were filed in November and December 2006. A Proposed Order of Hearing Examiner was issued on January 12, 2007, was untimely appealed by the Chaffees, and became final Order No. 81260 on February 13, 2007. Order No. 81260 declined to accept SMECO's proposed line extension tariff but accepted the line cost calculation method proposed by the Commission Staff. In its Order No. 81548 issued August 3, 2007 denying the

Chaffees' appeal and closing Case No. 9065, the Commission instituted Case No. 9115 as a new investigation into SMECO's service line extension charges and delegated it to the Hearing Examiner Division.

15. The Investigation Required by Section 5, 2006 Maryland Laws, 1st Special Session, Public Service Commission - Electric Industry Restructuring – Case No. 9073

As noted in the 2006 Annual Report, Case No. 9073 was instituted on August 17, 2006 in response to Senate Bill No. 1, passed on June 14, 2006 and enacted as Chapter 5, 2006 Maryland Laws, 1st Special Session (Chapter 5). Section 5 of the statute requires the Commission to investigate "the general regulatory structure, agreements, orders, and other prior actions of the Public Service Commission under the Electric Choice and Competition Act of 1999, including the determination of and allowances for stranded costs." The statute also requires, among other things, that the Commission provide to residential customers of Baltimore Gas and Electric Company funds to mitigate rate increases. Numerous parties intervened in this case. A pre-hearing conference was held on August 30, 2006, and testimony was submitted by various parties, with hearing initially scheduled for February 15, 2007.

However, in light of Senate Bill 400 introduced as an Emergency Bill on February 2, 2007 before the Maryland General Assembly, which provided that new proceedings be initiated to review these matters when a new Commission chairman is appointed, the Office of People's Counsel moved for suspension of the hearing schedule in Case No. 9073 pending further action on Senate Bill 400. The motion was not opposed, and the hearings were postponed on February 13, 2007.

Since passage of Senate Bill 400 (Chapter 549, Acts 2007), outside of this docket the Commission engaged the national law firm Kaye Scholer, LLP through a competitive procurement process to perform an analysis and report regarding electric restructuring in Maryland, including a Stranded Costs Report, which will be available in early 2008.

16. The Investigation Required by Section 11, 2006 Maryland Laws, 1st Special Session, Public Service Commission - Electric Industry Restructuring – Case No. 9074

This case, noted in the 2006 Annual Report, was instituted on August 18, 2006 as a result of Section 11, Chapter 5 2006 Maryland Laws, 1st Special Session, which requires the Commission to study the impact of rising fuel prices on residential customers and potential programs to mitigate the impact on low-income residential electric and natural gas customers. The Commission was to examine percentage of income plans and tiered rate structure plans in its study, and to submit a report to the Senate Finance Committee and House Economic Matters Committee by December 31, 2006. The report was to make recommendations for the adoption and feasibility of the studied mitigation programs.

Following delegation to the Hearing Examiner Division, extensive testimony was filed by the concerned utilities, the Office of Home Energy Programs, the Commission Staff and the Office of People's Counsel. The testimony was wide-ranging and included various recommendations including that no action be taken, to allow each utility to run in-house assistance programs, and a recommendation for the creation of a Gas Universal Service Program.

Following hearing held on November 28, 2006, the Hearing Examiner issued a Proposed Order on December 13, 2006. The Proposed Order made four recommendations to the Commission to be considered for inclusion in its report to the Legislature: (1) that Maryland institute a Gas Universal Service Program mirrored after the existing EUSP; (2) that a study be conducted as to the enactment of a "one-stop shop" model for all aid programs; (3) that new residential construction be required to be energy efficient; and (4) that all utility aid programs be funded to levels which meet the existing utility need shortfalls.

The Proposed Order was appealed by several parties. Memoranda on appeal were filed during 2007, and the appeal remains pending at year's end.

17. The Application of Constellation Power Source Generation, Inc. for a Certificate of Public Convenience and Necessity Authorizing the Modification of the Brandon Shores Generating Station in Anne Arundel County, Maryland – Case No. 9075

As noted in the 2006 Annual Report, on August 23, 2006, Constellation Power Source Generation, Inc. filed an application for a Certificate of Public Convenience and Necessity to modify its Brandon Shores generating station located in Anne Arundel County. In the application, the Company requests authorization to modify the facility to install air quality control systems that are intended to decrease emissions of certain primary air pollutants and enable the Company to comply with the recently enacted Maryland Healthy Air Act.

Following delegation to the Hearing Examiner Division, hearings were held on December 4, 2006 and February 22, 2007. In a Proposed Order issued May 25, 2007, the Hearing Examiner accepted an Agreement of Stipulation and Settlement which authorized the modifications subject to final licensing conditions, as the record was uncontested that the project would greatly reduce major emissions of sulfur dioxide and result in significant improvements in air quality. The Proposed Order was not appealed and became Order No. 81428 effective June 2, 2007.

18. The Application of Mirant Chalk Point, LLC for a Certificate of Public Convenience and Necessity for Authority to Modify the Chalk Point Generating Station in Prince George's County, Maryland – Case No. 9079

As noted in the 2006 Annual Report, on October 10, 2006, Mirant Chalk Point, LLC filed a request for a Certificate of Public Convenience and Necessity (CPCN) to modify its existing Unit No. 1 at its Chalk Point Generating Station in Prince George's County. The CPCN is for the installation of a Selective Catalytic Reduction System to reduce the output of emissions of oxides of nitrogen (NO_x). The reduction is necessary to come into compliance with Maryland's new Healthy Air Act.

Following delegation to the Hearing Examiner Division, hearings were held on January 17, 2007. A stipulation of settlement was filed on February 5, 2007 which was agreed to by all parties as being in the public interest. A Proposed Order of Hearing Examiner was filed on February 6, 2007 which found the settlement agreement to be in

the public interest and in compliance with all statutory requirements. A final order (Order No. 81263) was entered on February 15, 2007.

19. The Application of Choptank Electric Cooperative, Inc. for Authority to Revise its Rates and Charges for Electric Service – Case No. 9082

As noted in the 2006 Annual Report, on October 20, 2006, Choptank Electric Cooperative, Inc. filed an application to increase its electric distribution rates by \$3,016,476, which would increase annual revenues by 2.94 percent.

After delegation to the Hearing Examiner Division, a Proposed Order was issued on March 13, 2007 which adopted a settlement agreement of the parties that accepted the proposed increase with an offset to decrease generation and power supply revenue by \$22,255, for a net increase of \$2,994,221, effective April 1, 2007. The Proposed Order was not appealed and became Order No. 81323 on March 23, 2007.

20. The Application of Constellation Power Source Generation Inc. for a Certificate of Public Convenience and Necessity for Authority to Modify the Herbert A. Wagner Generating Station in Anne Arundel County, Maryland – Case No. 9083

This matter was discussed in the 2006 Annual Report. Constellation Power Source Generation, Inc. (Constellation) filed an application to modify the Herbert A. Wagner Generating Station on November 1, 2006. In its application, Constellation requests authority to modify the facility to install air quality control systems to comply with the recently enacted Maryland Healthy Air Act. Following delegation to the Hearing Examiner Division, a pre-hearing conference was held on November 29, 2006.

Constellation filed direct testimony on December 20, 2006, and a hearing for cross-examination was held on January 24, 2007. The Maryland Department of Natural Resources Power Plant Research Program (PPRP) and the Commission Staff filed testimony on February 23, 2007. Further hearing was held on March 24, 2007, including an evening hearing for public comment. A Proposed Order of Hearing Examiner, which approved Constellation's proposal with conditions recommended by PPRP, was issued on May 1, 2007. It was not appealed and became final Commission Order No. 81397 on May 8, 2007.

21. The Application of Constellation Power Source Generation, Inc. for a Certificate of Public Convenience and Necessity for Authority to Modify the Charles P. Crane Generating Station in Baltimore County, Maryland – Case No. 9084

As noted in the 2006 Annual Report, on November 2, 2006 Mirant Mid-Atlantic, LLC filed a request for a Certificate of Public Convenience and Necessity (CPCN) to modify its Charles P. Crane Generating Station in Baltimore County. The CPCN is for the installation of systems to reduce emissions of oxides of nitrogen (NO_x) and mercury so as to come into compliance with Maryland's new Healthy Air Act.

Following delegation to the Hearing Examiner Division, hearing was held on June 19, 2007, and on July 13, 2007 a stipulation of settlement, executed by all parties, was filed. On July 24, 2007 a Proposed Order of Hearing Examiner was filed accepting the terms and conditions as agreed upon in the settlement. Order No. 81536 was entered on July 31, 2007 which order concluded the proceeding.

22. The Application of Mirant Mid-Atlantic, LLC for a Certificate of Public Convenience and Necessity for Authority to Modify the Morgantown Facility in Charles County, Maryland – Case No. 9085

As noted in the 2006 Annual Report, on November 2, 2006 Mirant Mid-Atlantic, LLC filed an application for a Certificate of Public Convenience and Necessity (CPCN) to permit the installation of air pollution control technology, specifically a flue gas desulfurization (FGD) system, at its Morgantown Electric Generating Station in Charles County, Maryland. The FGD system will include a number of associated facilities to include a material handling system, a new dual flue stack, and a new water treatment system; and the purpose of the system is to reduce sulfur dioxide emissions for the existing coal-fired generators. Following delegation to the Hearing Examiner Division, a procedural schedule was developed. Adjudicatory hearings were held on February 13 and April 23, and on the evening of May 7, 2007, a hearing was held to receive public comment. At the conclusion of this process, the Hearing Examiner issued a Proposed Order (dated August 21, 2007) which would grant a Certificate of Public Convenience and Necessity authorizing installation of certain air pollution control equipment at the Morgantown Electric Generating Station. The Proposed Order was appealed to the Commission by the Swan Point Property Owners Association. After briefing and oral

argument on September 24, 2007, the Commission issued Order No. 81667 on October 22, 2007 that affirmed the Hearing Examiner's Proposed Order while adding an additional condition regarding sediment sampling.

23. The Application of Mirant Chalk Point, LLC for a Certificate of Public Convenience and Necessity for Authority to Modify the Chalk Point Generating Station in Prince George's County, Maryland – Case No. 9086

As noted in the 2006 Annual Report, on November 3, 2006, Mirant Chalk Point, LLC filed an application for a Certificate of Public Convenience and Necessity to modify its Chalk Point Generating Station located in Prince George's County. In the application, the Company requests authorization to modify the facility to install air quality control equipment, specifically a Flue Gas Desulfurization (FGD) System, intended to decrease emissions of certain primary air pollutants and enable the Company to comply with the recently enacted Maryland Healthy Air Act.

Following delegation to the Hearing Examiner Division, hearings were held on February 26, 2007 and April 30, 2007. In a Proposed Order issued July 27, 2007, the Hearing Examiner accepted a settlement agreement filed on July 24, 2007 which authorized the modification of Chalk Point Units Nos. 1 and 2 to enable installation of an FGD System subject to the final licensing conditions, as the record was uncontested that the project would greatly reduce major emissions of sulfur dioxide and result in significant improvements in air quality. The Proposed Order was not appealed and became Order No. 81550 effective August 4, 2007.

24. The Application of Mirant Mid-Atlantic, LLC for a Certificate of Public Convenience and Necessity for Authority to Modify the Dickerson Generating Station in Montgomery County, Maryland – Case No. 9087

As noted in the 2006 Report, on November 3, 2006 Mirant Mid-Atlantic, LLC filed an application for a Certificate of Public Convenience and Necessity authorizing the modification of the Dickerson Generating Station in Montgomery County, Maryland. The proposed modification seeks to install air quality control systems to comply with the recently enacted Maryland Healthy Air Act. The Commission delegated this matter to the Hearing Examiner Division to conduct proceedings. A pre-hearing conference was held on November 21, 2006 and the parties agreed on a procedural schedule. Evidentiary

hearings were held on February 15, 2007 and April 17, 2007 and an evening hearing for public comment was held on April 17, 2007. On June 22, 2007, the applicant filed an Agreement of Stipulation and Settlement which recommended granting the CPCN with proposed conditions agreed upon by all parties to the case.

25. The Application of Baltimore Gas and Electric Company for a Qualified Rate Order to Finance Rate Stabilization Costs, and for Related Purposes – Case No. 9089

This case is also noted in the 2006 Annual Report. On November 3, 2006 Baltimore Gas and Electric Company (BGE) filed its Application for a Qualified Rate Order to Finance Stabilization Costs, along with supporting testimony. BGE sought to securitize the sum of its deferred power costs and other qualified rate stabilization costs incurred in connection with BGE's rate stabilization plan. BGE also sought approval for its securitization financing structure and for the issuance of Rate Stabilization Bonds, among other things.

On December 28, 2006 the Commission issued Order Nos. 81181 and 81182. Order No. 81181 approved BGE's application for issuance of a Qualified Rate Order, including approval and authorization of BGE's securitization transaction, the issuance of Rate Stabilization Bonds, and BGE's Rate Stabilization Charges, among other matters. Order No. 81182 approved BGE's issuance to customers of Financing Credits. The Financing Credits result from various savings, including tax savings, resulting from BGE's securitization. On January 2, 2007, corrections to the Financing Credit Order (Order No. 81182) were issued to reflect certain modifications by the Company.

Pursuant to the Qualified Rate Order (Order No. 81181), BGE submitted a draft Issuance Advice Letter and final Issuance Advice Letter in conformance with the pricing of the Rate Stabilization Bonds issued on June 22, 2007. By letter dated December 10, 2007 the Commission accepted BGE's Issuance Advice Letter and tariff pages. The Company subsequently submitted a letter on December 13, 2007 responding to questions regarding legal and financial advisor fees associated with the bonds approved in the Qualified Rate Order.

26. The Commission's Investigation into a Residential Electric Rate Stabilization and Market Transition Plan for The Potomac Edison Company d/b/a Allegheny Power – Case No. 9091

This case is also noted in the 2006 Annual Report. By Order No. 81130 issued on November 28, 2006, the Commission instituted Case No. 9091 to investigate opportunities for implementing a rate stabilization and market transition plan for residential customers of The Potomac Edison Company d/b/a Allegheny Power (AP) in order to provide an opportunity for a more gradual transition to market-based rates. Rates for AP residential customers were reduced by seven percent in 1999 and then frozen through December 31, 2008, while the costs of fossil fuels have been rising dramatically since the 1999 rate cap was instituted. Similar to Case Nos. 9052 (BGE) and 9058 (Pepco and Delmarva) in which rate stabilization plans have been investigated for residential customers of the other investor-owned utilities, this proceeding was instituted for Allegheny Power, which is the only one of these electric utilities whose rate caps have not yet expired.

On December 29, 2006, AP filed an application for a proposed Rate Stabilization Ramp Up Transition Plan that would provide a more gradual transition to market-based rates. The initial plan would be mandatory and provides for surcharges in 2007 and 2008 prior to the expiration of the rate caps, which surcharges will be credited to customer accounts with interest earned to reduce the future bill increases that will occur on January 1, 2009 upon the expiration of the rate caps.

In January 2007, the Commission conducted a series of evening hearings to inform customers about the proposed Transition Plan and solicit comment. The company filed a modified plan on January 31, 2007 with an opt-out feature, and hearing was held on March 15, 2007 to consider the proposals and recommendations.

By Order No. 81331 issued on March 30, 2007, the Commission authorized a Transition Plan with an opt-out election method and using a two-billing cycle decision period for customers. Also, the company was directed to file quarterly reports to better monitor the plan.

27. The Application of Potomac Electric Power Company for Authority to Revise its Rates and Charges for Electric Service and for Certain Rate Design Changes – Case No. 9092

As noted in the 2006 Annual Report, on November 17, 2006, Potomac Electric Power Company (Pepco) 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 \$55.7 million.

Following extensive hearings, by Order No. 81517 entered on July 19, 2007 the Commission determined that a temporary rate increase of \$10,606,000 be granted, representing an approximate 0.56 percent increase in the typical monthly bill for a Standard Offer Service residential customer using 800 kWh per month. In determining that the increase be temporary, the Commission found that the Company failed to submit an independent audit opinion demonstrating compliance with §4-208 of the Public Utility Companies Article regarding its cost allocation manual. Therefore, the temporary increase was authorized while a Phase II was instituted to further review cost allocation and service company costs allocated to Pepco. The decision also adopted a "Present Value" methodology for calculation of costs of removal of depreciated property, while accepting a "Bill Stabilization Adjustment" to de-couple company revenue from electricity sales which will remove a major disincentive to conservation efforts.

By Order No. 81583 issued on August 31, 2007, the Commission clarified its directives as to the audit opinion. In Order No. 81713 issued November 15, 2007, the Commission consolidated the Phase II cost allocation review of Case No. 9092 with the similar Phase II review of Case No. 9093, *Re Delmarva Power and Light Company*. Initial testimony was filed in the consolidated Phase II proceeding in December 2007, and further filings and hearings are scheduled for early 2008.

28. The Application of Delmarva Power and Light Company for Authority to Revise its Rates and Charges for Electric Service and for Certain Rate Design Changes – Case No. 9093

As noted in the 2006 Annual Report, on November 17, 2006, Delmarva Power and Light Company (Delmarva) 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 \$20.3 million.

Following extensive hearings, by Order No. 81518 entered on July 19, 2007 the Commission determined that a temporary rate increase of \$14,882,000 be granted, representing an approximate 2.15 percent increase in the typical monthly bill for a Standard Offer Service residential customer using 1,000 kWh per month. In determining that the increase be temporary, the Commission found that the Company failed to submit an independent audit opinion demonstrating compliance with §4-208 of the Public Utility Companies Article regarding its cost allocation manual. Therefore, the temporary increase was authorized while a Phase II was instituted to further review cost allocation and service company costs allocated to Delmarva. The decision also adopted a "Present Value" methodology for calculation of costs of removal of depreciated property, while accepting a "Bill Stabilization Adjustment" to de-couple company revenue from electricity sales which will remove a major disincentive to conservation efforts.

By Order No. 81583 issued on August 31, 2007, the Commission clarified its directives as to the audit opinion. In Order No. 81713 issued November 15, 2007, the Commission consolidated the Phase II cost allocation review of Case No. 9093 with the similar Phase II review of Case No. 9092, *Re Potomac Electric Power Company*. Initial testimony was filed in the consolidated Phase II proceeding in December 2007, and further filings and hearings are scheduled for early 2008.

29. The Application of Baltimore Gas and Electric Company for Approval of Changes In Depreciation Rates – Case No. 9096

On December 27, 2006, Baltimore Gas and Electric Company filed an application for changes to its depreciation rates. On January 3, 2007 the Commission delegated this case to the Hearing Examiner Division. A pre-hearing conference was held on February 13, 2007 at which a procedural schedule was set. Several parties were added as intervenors and testimony was filed on behalf of BGE, the Office of People's Counsel, and the Commission's Staff. Hearings were held on September 24 and 25, 2007, and briefs were filed. A decision is expected in early 2008.

30. The Matter of Baltimore Gas and Electric Company's Proposal to Implement a Rate Stabilization Plan Pursuant to Section 7-548 of the Public Utility Companies Article and the Commission's Inquiry into Factors Impacting Wholesale Electricity Prices – Case No. 9099

On January 26, 2007, BGE proposed a Rate Stabilization Plan for the period June 1 through December 31, 2007 applicable to its residential Standard Offer Service (SOS) electric customers who would face an approximate 50 percent increase in electric rates on June 1, 2007. The proposed BGE plan would allow such customers to "opt-in" to a transition plan that would defer half of the SOS increase until full market rates would apply on January 1, 2008. By Order No. 81303 entered on March 8, 2007, the Commission instituted Case No. 9099 to consider the proposed BGE plan as well as any other plans parties may propose for this period. The Commission further directed that parties address the SOS auction process as well as other matters concerning SOS prices and wholesale energy markets. After filing of testimony by numerous parties, extensive hearings were conducted over eight days in April 2007, as well as three evening hearings for the receipt of public comment.

By Order No. 81423 entered on May 23, 2007, the Commission reluctantly determined it must accept the increase in supply prices for BGE residential SOS customers and approved the voluntary opt-in Rate Stabilization Plan with modifications in order to provide a plan to mitigate the increase in electricity prices while moving towards full market rates, with the Commission directing no interest expense accrue on the debt incurred. Also, the company was directed to file periodic reports regarding customer enrollments and complaints. BGE was subsequently directed to provide further information in response to a subpoena issued July 25, 2007 concerning the company's organization and SOS-related matters.

31. The Application of Washington Gas Light Company for Approval of Changes in Depreciation Rates – Case No. 9103

On April 13, 2007 Washington Gas Light Company filed an application to change its depreciation rates. Following delegation to the Hearing Examiner Division, a pre-hearing conference was held on July 12, 2007, and a procedural schedule was developed. Following various discovery disputes, a motions hearing was held on

November 7, 2007 at which a revised schedule was set, with evidentiary hearings scheduled for May 2008.

32. The Application of Washington Gas Light Company for an Increase in Rates and Charges for Gas Service and to Implement a Performance-Based Rate Plan – Case Nos. 9104 and 9104, Phase II

On April 20, 2007, Washington Gas Light Company (WGL) filed an application with the Commission for authority to increase its rates and charges for gas service by \$33.8 million. Hearings were held on August 21-23 and September 18, 2007, and a Proposed Order of Hearing Examiner issued on October 5, 2007. The Proposed Order recommended that WGL be authorized to file revised tariffs designed to produce \$20,555,809 in additional annual revenues. The Proposed Order also instituted a Phase II proceeding to review and examine the issues surrounding the Accenture, LLP outsourcing contract and to consider the associated impact of the Company's proposed Performance-Based Rate Plan.

On October 19, 2007, WGL, the Office of People's Counsel, and the Apartment and Office Building Association filed Notices of Appeal and Memoranda on Appeal. The Commission issued Order No. 81715 on November 16, 2007 affirming the Proposed Order except as modified to make necessary adjustments to WGL's tariff to reflect the depreciation reserve treatment contained in the Order. The Order authorized WGL to file tariffs designed to produce \$20,555,809 in additional annual revenues.

The Phase II review will continue in 2008.

33. The Application of Southern Maryland Electric Cooperative, Inc. for Authority to Revise Its Rates and Charges for Electric Service and for Certain Rate Design Changes – Case No. 9106

On May 21, 2007, Southern Maryland Electric Cooperative, Inc. (SMECO) filed an application to revise its rates and charges, for a rate increase of 4.26%, to produce an increase of \$15,800,000. By Order No. 81402 issued May 9, 2007, the Commission suspended SMECO's rates and delegated this case to the Hearing Examiner Division. A pre-hearing conference was held on May 27, 2007 and public hearings were held on September 10, 2007 to consider a stipulation and settlement agreement filed by the

parties. The settlement provided for an increase of \$15,309,366 in net annual base rate revenue, for a 4.12% increase.

On September 11, 2007 a Proposed Order of Hearing Examiner was filed which accepted the proposed settlement as being in the public interest. On September 19, 2007, Order No. 81617 was entered as a final order in the matter.

34. The Commission's Investigation of Advanced Metering Technical Standards, Demand Side Management (DSM) Cost Effectiveness Tests, DSM Competitive Neutrality, and Recovery of Costs of Advanced Meters and DSM Programs – Case No. 9111

By Order No. 81448 entered on June 8, 2007, the Commission instituted a generic collaborative process to consider various issues related to advanced metering initiatives (AMI) and demand-side management (DSM) programs of the investor-owned electric utilities. The issues include technical standards and capabilities of advanced meters; and competitive neutrality, cost recovery, and cost-effectiveness measures for DSM programs. In addition, the Commission also established a combined Delmarva Power and Light Company/Potomac Electric Power Company collaborative to consider specific demand-side management initiatives for those companies. Relevant comments that had previously been filed by many parties regarding AMI and DSM issues were also placed in this docket.

On July 6, 2007, the AMI and DSM Collaborative Report was filed indicating matters on which the Collaborative reached consensus, including cost recovery and cost-effectiveness test recommendations, and comments were filed by parties on non-consensus issues. On July 16, 2007, the Delmarva/Pepco DSM collaborative Report was filed.

By Order No. 81618 issued on September 19, 2007, the Commission approved the implementation of the Residential Compact Fluorescent Light Programs and Residential Energy Awareness Campaign proposed by Delmarva and Pepco. Also, by Order No. 81637 issued on September 28, 2007, the Commission established general parameters and directed all electric companies to develop comprehensive energy efficiency, conservation and demand reduction plans and programs to meet certain conservation

goals by 2015. The investor-owned utilities filed such plans in October 2007, and following comments by various parties, hearings were held on November 8-9, 2007.

The non-investor-owned utilities are to file their energy efficiency, conservation and demand reduction plans in early 2008.

35. The Further Investigation into Southern Maryland Electric Cooperative, Inc.'s Service Line Extension Charges – Case No. 9115

In Order No. 81548 issued on August 3, 2007 in Case No. 9065, the Commission upheld the validity of prior Order No. 81260 in that case concerning SMECO service line extension charges to new single-family homes. However, the Commission further determined it would be appropriate to institute a new investigation into SMECO's service line extension rates and delegated this matter to the Hearing Examiner Division.

A pre-hearing conference was held on September 11, 2007 and hearings conducted on December 10 and 11, 2007. Briefs are due in early 2008.

36. The Commission's Investigation of Investor-Owned Electric Companies' Standard Offer Service for Residential and Small Commercial Customers in Maryland – Case No. 9117

The Commission instituted Case No. 9117 by Order No. 81563 issued on August 16, 2007. The case has two primary purposes: to investigate alternative or modified power procurement methods for Standard Offer Service (SOS) customers, and to investigate issues regarding aggregating buying power for customers of Maryland's Electric Universal Service Program (EUSP). The EUSP is designed to benefit low-income customers, while other residential and small business customers are subject to service under the SOS program. The results of this investigation may significantly change the way that electricity is obtained for the Maryland market.

A wide range of energy suppliers, utilities, and public interest groups became parties to Case No. 9117, and extensive testimony has been filed. Hearings for cross-examination of pre-filed testimony were held in October and November 2007, while parties continued to submit further testimony on various issues. The record in Case No.

9117 remained open at the close of the year with further hearing anticipated in early 2008.

37. The Commission's Investigation into Ohms Energy Company, LLC's License to Supply Electricity or Electric Generation Services in Maryland – Case No. 9118

On August 20, 2007, Ohms Energy Company, LLC a licensed electricity supplier, notified the Commission that it stood in default of its collateral call and invoice payment obligations to the PJM Interconnection LLC, which rendered it unable to currently provide electricity to its retail customers. Therefore, Ohms noted it had no choice but to return its customers to Baltimore Gas and Electric Company as the Provider of Last Resort (POLR) service.

Ohms was directed to no longer solicit or add customers, and an emergency hearing was held on August 22, 2007. By Order No. 81572 issued on August 24, 2007, Ohms' license to supply electricity or electric generation service in Maryland was suspended until such time as Ohms can satisfy various requirements and conditions applicable to licensed suppliers, and its customers are to be provided appropriate notice of their change in electric supplier.

In the transition of customers to BGE, BGE has requested waiver of certain provisions to resolve customer billing complaints that have arisen as to payment prioritization between Ohms and BGE. This matter was delegated to the Hearing Examiner Division for mediation. On December 19, 2007, the parties (Ohms, BGE, People's Counsel, and Staff) filed a Joint Motion to the Commission which proposes a process to allow Ohms to send portions of refunds to BGE to reduce or eliminate past due balances on customer accounts with BGE, which process the parties believe will resolve customer complaints wherein customers received refunds from Ohms while owing BGE for service.

38. The Commission's Inquiry of the Definition of "Small Commercial Customer" – Case No. 9122

On October 24, 2007, in response to a 2007 legislative directive (contained in Senate Bill 400, Chapter 549, 2007 Laws of Maryland), the Commission instituted Case No. 9122 to review the definition of "small commercial customer." Previous to the 2007 legislative directive, "small commercial customer" was defined in Order No. 81102 in Case No. 9064 (*Re Competitive Selection of Electricity Supplier/Standard Offer or Default Service for Investor-Owned Utility Small Commercial Customers*) as "a commercial customer that does not have: a metered 30-minute demand that equals or exceeds 25 kW; energy consumption in excess of 6,000 kWh in any two consecutive winter billing months; or a monthly energy consumption that exceeds 7,500 kWh for a single summer billing month."

Comments have been filed by various parties in November 2007, and the matter remains pending.

39. Application of Constellation Power Source Generation, Inc for a Certificate of Public Convenience and Necessity Authorizing the Modification of the Gould Street Generating Station in Baltimore City, Maryland – Case No. 9124

On October 12, 2007, Constellation Power Source Generation, Inc. filed an application for a Certificate of Public Convenience and Necessity to modify its Gould Street Generating Station in Baltimore City, Maryland. According to the application, the company requests authorization to reactivate Unit 3 of the existing Gould Street Generating Station to operate exclusively as a natural gas-fired unit.

A pre-hearing conference was held on November 9, 2007. Hearings are scheduled for early 2008.

40. The Application of Pivotal Utility Holdings, Inc. d/b/a Elkton Gas for Authority to Increase Its Natural Gas Rates – Case No. 9126

On November 13, 2007, Pivotal Utility Holdings, Inc. d/b/a Elkton Gas (Elkton Gas) filed with the Commission an application for authority to increase its natural gas rates. Elkton Gas seeks to increase existing rates and charges for gas service in Maryland by no

more than \$302,923. In addition, the Company filed testimony, supporting exhibits and related revised tariffs.

By Order No. 81730 issued November 29, 2007, the Commission suspended Elkton Gas' proposed rates and delegated the matter to the Hearing Examiner Division for hearing. A pre-hearing conference will be held in early January 2008.

41. The Application of UniStar Nuclear Energy, LLC and UniStar Nuclear Operating Services, LLC for a Certificate of Public Convenience and Necessity to Construct a Nuclear Power Plant at Calvert Cliffs in Calvert County, Maryland – Case No. 9127

On November 13, 2007, UniStar Nuclear Energy, LLC and UniStar Nuclear Operating Service, LLC, filed a joint application for a Certificate of Public Convenience and Necessity to construct a new nuclear power plant at Calvert Cliffs in Calvert County, Maryland. A pre-hearing conference was scheduled for January 4, 2008 in Calvert County, Maryland, and hearings will be held in 2008.

42. The Petition of Washington Gas Light Company for Authorization to Retroactively Bill a Residential Customer for Undercharges for Gas Service – Case No. 9128

On March 29, 2007, Washington Gas Light Company filed a request to retroactively bill a residential customer for undercharges. On November 16, 2007 this matter was delegated to the Hearing Examiner Division. A pre-hearing conference was held on December 18, 2007 and a procedural schedule was set with hearing scheduled for March 2008.

43. The Application of CPV Maryland, LLC for a Certificate of Public Convenience and Necessity to Construct a Nominally Rated 640 MW Generating Facility in Charles County, Maryland – Case No. 9129

On December 14, 2007, CPV Maryland, LLC filed an application with the Commission for a Certificate of Public Convenience and Necessity to construct and operate a nominally rated 640 megawatt (MW) combined-cycle natural gas-fired electric power generating station and associated facilities at the Piney Reach Business Park located in Charles County, Maryland.

The application was delegated to the Hearing Examiner Division, and a pre-hearing conference is scheduled in January 2008.

44. The Application of Constellation Power Source Generation, Inc. for a Certificate of Public Convenience and Necessity Authorizing the Modification of the Riverside Generating Station in Baltimore County, Maryland – Case No. 9132

On December 21, 2007, Constellation Power Source Generation, Inc. filed an application for a Certificate of Public Convenience and Necessity to modify its Riverside Generating Station in Baltimore County. Following delegation to the Hearing Examiner Division, a pre-hearing conference has been scheduled in early 2008 to address any preliminary matters and establish a procedural schedule.

B. Telecommunications

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

In this case, noted in the 2004, 2005 and 2006 Annual Reports, Verizon Maryland Inc. complained that Cavalier Telephone Mid-Atlantic, LLC was wrongfully imposing customer "winback" and "truck roll" charges on Verizon. "Winback" charges were imposed by Cavalier on Verizon for Cavalier's part in returning Cavalier customers to Verizon. "Truck roll" charges are imposed by Cavalier for service calls to address Verizon's failure to deliver a working telecommunications loop.

Following issuance of a Proposed Order on November 23, 2005, which found for Cavalier on both issues, Verizon timely appealed. On December 12, 2006, the Commission issued Order No. 81153, reversing the Proposed Order on its "winback" charge holding, and sustaining the Proposed Order on its "truck roll" holding. On January 11, 2007, Verizon filed a Motion for Partial Reconsideration of Order No. 81153.

On January 25, 2007, the Commission sent a letter to the parties asking for responses to Verizon's motion, and Cavalier filed a response on February 2, 2007. This matter was pending at the close of 2007.

2. The Complaint of Cavalier Telephone Mid-Atlantic, LLC for Breach of Interconnection Terms by Verizon Maryland Inc. and Request for Immediate Relief Requiring Payment of Access Charges – Case No. 9046

This case was discussed in the 2006 Annual Report. Cavalier Telephone Mid-Atlantic (Cavalier) filed its complaint for breach of interconnection terms by Verizon Maryland Inc. (Verizon) on September 9, 2005. Following a response by Verizon, the Commission delegated this matter to the Hearing Examiner Division on October 12, 2005.

After pre-filing of testimony in early 2006, on April 19, 2006, the Hearing Examiner suspended the procedural schedule in Case No. 9046 at the request of the parties, who wished to pursue mediation of issues similar to those in Case No. 9046 in another state. On September 7, 2006, Cavalier moved to reactivate Case No. 9046, resume discovery and supplement existing testimony with information obtained in arbitration. A hearing on the discovery issue was held on October 12, 2006. On October 27, 2006, the Hearing Examiner issued a ruling permitting limited discovery to continue.

In January 2007, this case was consolidated with Case No. 9094, a complaint of Verizon against Cavalier. The parties continued to engage in discovery and negotiation throughout 2007 and eventually reached settlement of all outstanding issues. On October 12, 2007 Cavalier and Verizon filed an amendment to their interconnection agreement that incorporated the results of their settlement agreement. On October 19, 2007, Cavalier filed a Consent Order of Dismissal indicating that Cavalier and Verizon had successfully resolved all matters that were the subject of Case No. 9046 and sought to dismiss the case with prejudice. Neither Staff nor People's Counsel objected to dismissing Case No. 9046. A Proposed Order on this matter will be issued in January 2008.

3. The Formal Complaint of New Frontiers Telecommunications, Inc. vs. Verizon Maryland Inc. – Case No. 9067

As noted in the 2006 Annual Report, on April 28, 2006, New Frontiers Telecommunications, Inc. (New Frontiers) filed with the Commission a complaint against Verizon Maryland Inc. (Verizon) concerning the parties' Interconnection Agreement. This matter was designated to a Commission panel on June 7, 2006, and a pre-hearing conference was held on August 10, 2006. A Notice of Procedural Schedule was issued on August 17, 2006 setting forth dates for the submission of testimony and dates for hearings. On December 7, 2006 the Commission issued Order No. 81145 appointing a mediator from the Hearing Examiner Division. On December 19, 2006 the Commission issued Order No. 81166 suspending the hearings scheduled in the proceedings so that parties could devote their efforts to the mediation.

In Order No. 81244 issued on February 5, 2007, the Commission noted the continuation of the suspension of the proceedings in support of the mediation efforts. Several rounds of mediation have occurred and the matter remains pending.

4. The Request of Verizon Maryland Inc. to Reclassify Certain Retail Bundled Services to the Competitive Services Basket as Provided by the Commission's Price Cap Plan – Case No. 9072

This case is noted in the 2006 Annual Report. On April 26, 2006, Verizon Maryland Inc. filed an application to reclassify certain bundled service offerings as competitive services, which proposed reclassification would allow Verizon greater flexibility to adjust rates for the bundled services in response to market conditions. The bundled services involve local exchange service "bundled" with other services as a package, while the individual services offered on a stand-alone basis (such as unbundled local exchange service) would not be reclassified.

Following hearings held in February 2007, including evening hearings for receipt of public comment, a Proposed Order of Hearing Examiner was issued on August 8, 2007, in which the Hearing Examiner determined that the request to reclassify must be denied as the record did not provide sufficient support that rates resulting from reclassification of bundled services would be just and reasonable throughout the entire State of Maryland.

Verizon has noted an appeal of the Proposed Order, which appeal remains pending at the end of 2007.

5. The Matter of Verizon Maryland Inc.'s Transmittal No. 1412 Proposing to Revise Directory Assistance Service Charges – Case No. 9080

This case is also noted in the 2006 Annual Report. On September 12, 2006 Verizon Maryland Inc. (Verizon) filed Transmittal No. 1412 with the Commission proposing to increase the directory assistance service (DA) charge from \$0.75 to \$0.95. On October 11, 2006 the Commission issued Order No. 81072 suspending the proposed rates and delegating the matter to the Hearing Examiner Division for further proceedings. The Hearing Examiner issued a Proposed Order on November 9, 2006 approving the increase in DA calls from \$0.75 to \$0.95 per call. The Proposed Order became final as Commission Order No. 81114 on November 17, 2006.

On November 17, 2006 the Office of People's Counsel filed a Notice of Appeal of the Proposed Order of Hearing Examiner and a Motion to File Out of Time. Verizon on November 20, 2006 filed an Opposition to Motion to File Out-of-Time. On February 2, 2007, the Commission issued Order No. 81242 denying OPC's Motion for Leave to File Out of Time and determined that it would not accept OPC's late-filed Notice of Appeal.

6. In the Matter of Verizon Maryland Inc.'s Transmittal No. 1420 Proposing to Increase Rates for the IntraLATA Toll Component of the Regional Essentials and Regional Value Packages – Case No. 9090

This case is also noted in the 2006 Annual Report. On November 8, 2006, Verizon Maryland Inc. filed a tariff to increase the monthly rates for the intraLATA toll component of two bundled services, contending that reclassification of intraLATA Toll as a Competitive Service in 2005 provides authority to re-price this component according to the marketplace even when it is part of a bundled service.

After initial Staff review and discussion at an Administrative Meeting, by Order No. 81124 entered on November 22, 2006 the proposed rates were suspended and the matter delegated to the Hearing Examiner Division for prompt proceedings. The parties involved, Verizon, Staff, and the Office of People's Counsel (OPC) agreed that the issues presented may be resolved upon legal briefs, and no hearing was necessary.

A Proposed Order was issued on December 21, 2006 finding that the bundled services were designated as Basket 4 Discretionary Services and subject to the Basket 4 pricing rules, despite the fact that a single component of the bundled services involves an offering that would be a competitive service and therefore within Basket 5 competitive pricing on a stand-alone basis. Therefore, the Proposed Order denied the Company proposal to increase the monthly rates for the intraLATA Toll component of the bundled services, while further noting the appropriate classification of various bundled services are to be determined in pending Case No. 9072.

Following an appeal by Verizon, the Commission affirmed and adopted the Proposed Order in Order No. 81547 entered on August 3, 2007, noting rejection of Verizon's request to avoid or waive applicable pricing rules by increasing the cost of one component of a bundled package without regard to the impact upon the price of the package as a whole.

7. The Complaint of Verizon Maryland Inc. for Breach of Interconnection Agreement Against Cavalier Telephone Mid-Atlantic, LLC – Case No. 9094

This case was included in the 2006 Annual Report. On November 22, 2006, Verizon Maryland Inc. filed this complaint against Cavalier for breach of the parties' interconnection agreement. On December 14, 2006, the Commission directed Cavalier to satisfy or answer Verizon's complaint and also delegated the complaint to the Hearing Examiner Division. Cavalier responded to the Commission's December 14, 2006 satisfy or answer requirement on January 2, 2007. The case was then consolidated with Case No. 9046, a complaint of Cavalier against Verizon, in January 2007. The parties have settled both Case Nos. 9046 and 9094 with a Consent Order of Dismissal filed October 19, 2007, and have sought to dismiss both cases with prejudice. A Proposed Order addressing the dismissal request will be issued in January 2008.

8. The Commission's Investigation into Verizon Maryland Inc.'s Service Performance and Service Quality Standards – Case No. 9114

In response to customer complaints regarding unreasonable delays in restoring service, by Order No. 81546 issued August 3, 2007, the Commission instituted this

investigation regarding repair and restoration of telephone service and directed Verizon Maryland Inc. to provide information and materials in response to a Show Cause Order.

After response by the company relating various measures to ameliorate service deficiencies, the Commission directed filing of Interim Performance Reports in Order No. 81658 issued October 15, 2007. In Order No. 81688 issued October 30, 2007, these interim reporting requirements were modified, and the company has filed three Interim Reports in November and December 2007.

9. The Commission's Investigation into Verizon Maryland Inc.'s Affiliate Relationships – Case No. 9120

This case involves a review of whether, consistent with the existing Price Cap regulatory framework, Verizon Maryland, Inc. ("Verizon") could "bundle," or sell together, its own services and services provided by its affiliates. Several parties maintained that combining Verizon's Price-Capped services with affiliates' non-Price-Capped services would undermine the Price Cap regulatory system.

The case began with several proposed tariff filings by Verizon and Verizon affiliates in June and July 2007. By letter orders issued on September 11, 2007, the Commission suspended the residential features of the proposed tariffs and delegated their review to the Hearing Examiner Division. By Order No. 81604, also issued on September 11, 2007, the Commission established Case No. 9120 and defined its parameters with respect to certain practices and services of Verizon and its affiliates. The parties submitted testimony in October and November 2007, and a hearing for cross-examination of all pre-filed testimony was held on November 27 and 28, 2007, followed by briefs and reply briefs from the parties. A Proposed Order of Hearing Examiner is anticipated in early 2008.

10. The Commission's Investigation into Local Calling Area Boundaries and Related Issues – Case Nos. 9121 and 8772

In Order No. 76537 issued November 2, 2000 in Case No. 8772, the Commission determined that when the level of residential subscription to a specific foreign exchange reaches 50 percent in a given telephone exchange, Bell Atlantic-Maryland (now Verizon

Maryland Inc.) must reduce the monthly price of foreign exchange service to \$2.00 for customers in contiguous exchanges when the "community of interest" test is met.

In response to a request filed April 6, 2007 to enforce prior decisions in Case No. 8772 and seek modification of local calling area exchanges, by Order No. 81609 issued September 17, 2007 in Case Nos. 8772 and 9121, the Commission determined that Verizon has complied with the Commission's directives to date with respect to local calling areas, but that a new proceeding should be initiated to examine these results on a statewide basis. The Commission noted the evolving variety of calling options over the past seven years has altered the landscape of the telephone market, and while the specific complaint was dismissed and Case No. 8772 was closed, Case No. 9121 was initiated to consider relevant issues regarding the community of interest test and local calling area boundary and related pricing issues.

11. The Commission's Inquiry Into Verizon Maryland Inc.'s Provision of Local Exchange Telephone Service Over Fiber Optic Facilities – Case No. 9123

On August 9, 2007 the Office of People's Counsel filed with the Public Service Commission a Request for an Investigation into Verizon Maryland Inc.'s Provision of Local Exchange Telephone Service over Fiber Optic Facilities. OPC alleges that Verizon has failed to make proper disclosures to consumers when Verizon switches a customer's local telephone service to Verizon's fiber optic facilities service (FIOS). OPC further questions whether the practices employed by Verizon in connection with switching consumers to FIOS complies with requirements of the Public Utility Companies Article, *Annotated Code of Maryland*, and the Commission's rules.

Following Verizon's response and OPC's counter-response, this matter was delegated to the Hearing Examiner Division on October 24, 2007. A pre-hearing conference was held on November 19, 2007 at which a hearing date was set for May 2008. On December 21, 2007 a motion to intervene was filed by COVAD Communications and XO Communications Service, Inc. A prior petition on behalf of the City of Baltimore was granted. COVAD's and XO's petitions are scheduled for a motions hearing in early 2008.

12. The Proposal of Verizon Maryland Inc. to Reduce the Residential Monthly Directory Assistance "Free" Call Allowance – Case No. 9125

On October 3, 2007, Verizon Maryland Inc. filed a request with the Commission to reduce its monthly calling allowance for directory assistance without a charge from four to two. On October 31, 2007 the matter was delegated to the Hearing Examiner Division. A pre-hearing conference was held on November 19, 2007 at which a procedural schedule was set for a hearing to be held in January 2008.

13. The Complaint of Cavalier Telephone Mid-Atlantic, LLC Concerning Directory Listing Charges Imposed by Verizon Maryland Inc. – Case No. 9130

This matter involves a complaint filed on October 19, 2007 by Cavalier Telephone Mid-Atlantic, LLC against Verizon Maryland, Inc. concerning directory listing charges. On November 14, 2007 Verizon filed an Answer and Motion to Dismiss. On December 20, 2007 the matter was delegated to the Hearing Examiner Division, and a pre-hearing conference is scheduled for January 2008.

C. Other Cases and Decisions

1. 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

As noted in prior Annual Reports, Allegany County, Maryland filed a petition with the Commission in June 2005 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. Evidentiary hearings were held on January 13 and 17, 2006 and an evening hearing for public comment was held on January 23, 2006.

A Proposed Order of Hearing Examiner was issued on May 1, 2006 setting a cost allocation methodology and adopting a total revenue requirement of \$1,768,359. The Proposed Order became final as Commission Order No. 80831 on June 1, 2006. On September 27, 2006 the City of Frostburg filed a compliance filing with the Commission. Allegany County, on December 1, 2006, filed comments asserting that the City's compliance filing fails to comply with the Commission's Order. The City of Frostburg and Staff filed responses on December 18, 2006. Allegheny County and the City of

Frostburg filed further responses on December 22, 2006. On January 11, 2007, the Commission issued a letter directing the City of Frostburg to submit new compliance tariffs consistent with Order No. 80831. The City of Frostburg filed a new compliance filing on January 19, 2007, and on February 2, 2007 the Commission issued a letter accepting the City of Frostburg's compliance filing.

2. The Application of Mountain Hill Water Company, LLC for Authority to Construct, Own and Operate a Water System *nunc pro tunc* and to Establish Rates – Case No. 9097

On January 4, 2007, Mountain Hill Water Company, LLC filed an application for authority to construct a water system, *nunc pro tunc*, exercise a franchise, and establish rates, with respect to a water system the company has operated since February 14, 2006 as Principio Water Company, LLC. The proposed service area is located in Cecil County, Maryland, and a business park and approximately 600 proposed residential units are included in the first phase of development intended to be served by the water company.

By Order No. 81358 issued on April 12, 2007, the Commission granted authority to Mountain Hill Water Company to construct and operate a portion of the system with respect to areas where it has already commenced service, while noting there appears to be disagreement with the Town of North East with respect to portions of the territory proposed to be served by the water company. The Commission Order did not extend to authority to charge rates and also required further Commission approval prior to the water company commencing further construction in areas not authorized. Subsequently, by Order No. 81676 entered October 26, 2007, the Commission authorized rates as the Company began serving at least two commercial customers on its water system. However, the Commission retained the requirement that the company seek and obtain approval prior to commencing construction in other areas, and further directed the filing of certain reports, as well as a formal rate review no later than December 2010.

3. The Application of Maryland-American Water Company for Authority to Adjust Its Existing Schedule of Tariffs and Rates – Case No. 9101

On March 29, 2007, Maryland-American Water Company filed an application to adjust its existing schedule of tariffs and rates. Maryland-American serves the

municipality of Bel Air and its environs in Harford County. By Order No. 81353 issued on April 11, 2007, the Commission suspended the proposed rates and delegated Case No. 9101 to the Hearing Examiner Division. Witnesses for the Commission Staff filed their testimony on June 15, 2007. Maryland-American did not file rebuttal testimony. An evening hearing for public comment was held on July 19, 2007. Also on July 19, 2007, the parties signed an Agreement of Stipulation and Settlement, agreeing to a 19.18 percent increase in customer bills. A Proposed Order of Hearing Examiner approving the Stipulation was issued on July 23, 2007. The Proposed Order was not appealed by any party and became final Order No. 81537 on July 31, 2007. Maryland-American's new tariffed rates became effective August 1, 2007.

VII. FY 2007 Receipts and Disbursements

C90G001 – General Administration and Hearings

Salaries and Wages	\$	4,243,898
Technical and Special Fees		159,717
Operating Expenses		<u>2,474,107</u>
Total Disbursements for Fiscal Year 2007	\$	6,877,722
Reverted to State Treasury		<u>0</u>
Total Appropriation for Fiscal Year 2007	\$	<u>6,877,722</u>

C90G002 – Telecommunications Division

Salaries and Wages	\$	491,466
Operating Expenses		<u>9,584</u>
Total Disbursements for Fiscal Year 2007	\$	501,050
Reverted to State Treasury		<u>0</u>
Total Appropriation for Fiscal Year 2007	\$	<u>501,050</u>

C90G003 – Engineering Investigations

Salaries and Wages	\$	1,097,636
Operating Expenses		<u>83,841</u>
Total Disbursements for Fiscal Year 2007	\$	1,181,477
Reverted to State Treasury		<u>0</u>
Total Appropriation for Fiscal Year 2007*	\$	<u>1,181,477</u>

* Includes \$22,300 Federal Funds

C90G004 – Accounting Investigations

Salaries and Wages	\$	471,142
Operating Expenses		<u>8,410</u>
Total Disbursements for Fiscal Year 2007	\$	479,552
Reverted to State Treasury		<u>0</u>
Total Appropriation for Fiscal Year 2007	\$	<u>479,552</u>

C90G005 – Common Carrier Investigations

Salaries and Wages	\$	1,082,442
Technical and Special Fees		113,930
Operating Expenses		<u>44,135</u>
Total Disbursements for Fiscal Year 2007	\$	1,240,507
Reverted to State Treasury		<u>0</u>
Total Appropriation for Fiscal Year 2007*	\$	<u>1,240,507</u>

* Includes \$ 129,569 Special Fund attainment for the For Hire Driving Enforcement Fund

C90G006 – Washington Metropolitan Area Transit Commission

Operating Expenses	\$	<u>303,461</u>
Total Disbursements for Fiscal Year 2007	\$	303,461
Reverted to State Treasury		<u>0</u>
Total Appropriation for Fiscal Year 2007	\$	<u>303,461</u>

C90G007 – Rate Research and Economics Division

Salaries and Wages	\$	510,556
Operating Expenses		<u>7,471</u>
Total Disbursements for Fiscal Year 2007	\$	518,027
Reverted to State Treasury		<u>0</u>
Total Appropriation for Fiscal Year 2007	\$	<u>518,027</u>
C90G008 – Hearing Examiner Division		
Salaries and Wages	\$	753,639
Operating Expenses		<u>3,265</u>
Total Disbursements for Fiscal Year 2007	\$	756,904
Reverted to State Treasury		<u>0</u>
Total Appropriation for Fiscal Year 2007	\$	<u>756,904</u>
C90G009 – Office of Staff Counsel		
Salaries and Wages	\$	672,180
Operating Expenses		<u>6,964</u>
Total Disbursements for Fiscal Year 2007	\$	679,144
Reverted to State Treasury		<u>0</u>
Total Appropriation for Fiscal Year 2007	\$	<u>679,144</u>
C90G0010 – Integrated Resource Planning Division		
Salaries and Wages	\$	455,392
Operating Expenses		<u>14,661</u>
Total Disbursements for Fiscal Year 2007	\$	470,053
Reverted to State Treasury		<u>0</u>

Total Appropriation for Fiscal Year 2007	\$	<u>470,053</u>
Summary of Public Service Commission Fiscal Year Ended June 30, 2007:		
Salaries and Wages	\$	9,778,351
Technical and Special Fees		273,647
Operating Expenses		<u>2,955,899</u>
Total Disbursements for Fiscal Year 2007	\$	<u>13,007,897</u>
Reverted to State Treasury		<u>0</u>
Total Appropriations *	\$	<u>13,007,897</u>
* Public Utility Regulation Fund:	\$	12,855,938
For-Hire Driving Services Enforcement Fund:	\$	129,659
Federal Funds:	\$	22,300
Assessments (Cost and expenses of the Public Service Commission, Office of People’s Counsel, the Railroad Safety Program, and Attorney General’s Office) remitted to the State Treasury during Fiscal Year 2007:		
	\$	16,590,574
Miscellaneous Fees remitted to the State Treasury during Fiscal Year 2007:		
1) Misc. Fines & Citations	\$	79,011
3) Rent To Department of General Services	\$	<u>643,415</u>
Total Miscellaneous Fees	\$	<u>722,426</u>