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Via Electronic Filing

January 19, 2010

Terry J. Romine, Executive Secretary
Maryland Public Service Commission
William Donald Schaefer Tower
6 St. Paul Street, 16th Floor
Baltimore, MD 21202

**Re: Administrative Docket RM35
Amendment to Compliance Plan of Baltimore Gas and Electric Company
Supplement No. 333, Gas Supplier Tariff, Appendix B to P.S.C. Md. G-9
(Maillog No. 119139)**

Dear Ms. Romine:

Baltimore Gas and Electric Company (BGE or Company) hereby submits this amendment to its October 8, 2009 Compliance Plan. BGE is revising Schedule 1 to that filing in order to be consistent with its filing in RM17. In a December 8, 2009 order in the RM17 proceeding, the Commission directed BGE to file by January 15, 2010 a non-zero discount rate with supporting documentation. At that time, current data was not available to develop a discount rate to become applicable in April 2010. Therefore, BGE filed a discount rate of zero in its October 8 filing in RM35. In order to maintain symmetry between its electric and gas implementation plans, BGE is amending its RM35 filing to reflect a non-zero discount rate. BGE has calculated its gas discount rate as 2.38% for residential customers and 0.85% for non-residential customers. On January 8, 2010, BGE convened a conference call with suppliers and Commission Staff to discuss BGE's discount rate proposal. No consensus was reached on the level of the discount rate.¹ However, in a good faith effort to bridge the gap, BGE makes several changes to its prior proposal herein. In compliance with the Order, BGE submits for approval tariff sheets depicting a non-zero discount rate, which are appended to this letter as Attachment 1.

¹ BGE did elect to revise its Risk Component from the 1.25% that it previously filed in its October 8 Compliance Plan to the methodology that is proposed herein, which is to calculate the Risk Component as 20% of the Gas Uncollectible Expense Component, not to exceed 0.25%. BGE initially proposed to use supplier bad debt experience and revenues when determining the Uncollectible Expense Component. Based on the suppliers' request, the Company agreed to estimate the supplier uncollectible experience using both BGE and supplier bad debt experience and gas commodity revenues.

Attachment 2 to this letter is a spreadsheet supporting its discount rate calculation. Below are the gas discount rates for residential and non-residential customers.

| | Residential | Non-Residential |
|-----------------------|-------------|-----------------|
| Uncollectible Expense | 2.13% | 0.71% |
| Operation Cost | 0.00% | 0.00% |
| Risk | 0.25% | 0.14% |
| Discount Rate | 2.38% | 0.85% |

BGE's discount rate is designed to recover uncollectible expenses, operation costs, and incorporates a Risk Component, as was permitted by the Commission's October 7 Order on BGE's compliance plan in RM17. Any over- or under- collections will be reconciled annually through a reconciliation mechanism. In January 2009, the Commission authorized BGE to recover estimated RM35 program development costs through the current Gas Choice and Reliability Charge (GCRC). BGE will continue to collect these program development costs through the GCRC mechanism that has been previously authorized by the Commission, unless directed otherwise. In the event the Commission directs BGE to recover these costs through the discount rate, BGE will re-file for a new discount rate that includes that element.

As a combined gas and electric utility, BGE will implement the RM35 requirements that are inseparable from RM17 requirements in parallel with RM17. Therefore, BGE is taking guidance from the October 7 Order when developing the gas discount rate.

Gas Uncollectible Expense Component

BGE will initially estimate the uncollectible component of the discount rate by dividing its Gas Commodity Service bad debt experience from November 2008 to October 2009 by its Gas Commodity Service revenues for the same time period ("the uncollectibles ratio"). In future years, BGE will estimate the uncollectibles ratio by dividing the sum of BGE and Supplier Gas Commodity Service bad debt experience by the total Gas Commodity Service revenues for the same time period. BGE will calculate a separate uncollectible expense component rate for residential and non-residential customers. Any difference between the actual uncollectible experience computed using BGE's actual uncollectibles ratio for the period and the amount collected by BGE to recover these costs during the same period will be included in the Reconciliation Component.

Operation Cost Component

For the first year, BGE will not include any costs in the Operation Cost Component. BGE will monitor the impact of purchasing supplier receivables and other RM35 enhancements on its operating costs, and will include any incremental RM35 costs in future re-sets of the discount rate. Any difference between the actual operation costs

and the amount collected by BGE to recover these costs will be included in the Reconciliation Component.

Reconciliation Component

This component will be applicable to the Uncollectible Expense and Operation Costs Components. Any imbalance will earn interest at the Company's authorized rate of return awarded in its most recent gas base rate case. This interest will increase the discount rate if BGE under-collects and decrease the discount rate if BGE over-collects. BGE will calculate a separate Reconciliation Component rate for residential and non-residential customers. If the Commission does not approve a Reconciliation Component, BGE reserves the right to re-file for a higher Risk Component to compensate BGE for the risk of under-collection.

Risk Component

BGE will compute the risk as 20% of the Gas Uncollectible Expense Component, not to exceed 0.25%. For example, if the Gas Uncollectible Expense Component is calculated to be 1.00%, the Risk Component would be 0.20%. However, if the Gas Uncollectible Expense Component is calculated to be 2.00%, the Risk Component would be capped at 0.25%. The Risk Component will be calculated separately for residential and non-residential customers.

A Risk Component is justified. BGE will be paying suppliers on a daily basis five days after the due date. However, as described in BGE's May 21, 2009 compliance plan in RM17, BGE only collects 74.7% of its residential customer billings in the first 30 days after billing. Additionally, the Risk Component helps mitigate any unrecovered cash working capital lag that may arise if customer payment patterns are slower than expected.

When BGE agreed to use the combined BGE and supplier gas commodity uncollectible experience to determine the Gas Uncollectible Expense Component rather than the supplier-only experience, the Company took on additional cash flow risk. All parties acknowledge that with the purchase of receivables suppliers will be able to offer gas commodity to a broader group of customers at a lower risk than today, including customers with poor payment histories. Since suppliers are guaranteed payment, it is conceivable that the percent of supplier revenues that ultimately becomes uncollectible could be greater than BGE's and the combined rate, leaving the cash flow burden with the Company. Furthermore, liquidity risk could certainly arise in light of regulatory policies that impact customer payments and BGE's cash flow. Long-term payment plans that extend the time period for repayment of debt and restrictions on terminations adversely impact BGE's cash flow; the purchase of receivable construct may aggravate such risks.

In short, a Risk Component is necessary and appropriate. However, if the Risk Component is denied, BGE proposes to include a Cash Working Capital calculation as part of its Operating Cost Component and to modify the reconciliation methodology to reflect the suppliers' actual bad debt experience. Additionally, if the true-up component of

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the discount is disallowed, BGE proposes to increase the Risk Component to compensate for the increased risks.

Program Development Cost Component

BGE is separately recording the costs incurred to implement the requirements of RM35. The Commission has authorized BGE to recover these program development costs through the GCRC. If the Commission directs BGE to recover these costs using the discount mechanism, BGE will refile to incorporate these costs and use the exact same approach as for the electric program development costs. That is, BGE will amortize that amount over three years, applying its most recently authorized rate of return from Case No. 9036 to the unamortized balance. BGE will divide the amount to be recovered in each of the three years by the estimated gas supplier revenues billed in each of those years. Any difference between the actual program development costs and the amount collected by BGE to recover these costs will be included in the Reconciliation Component.

BGE respectfully requests that the Commission approve the tariff sheets provided as Attachment 1 to this letter. Because BGE will be implementing purchase of receivables for gas at the same time as for electric, BGE further respectfully requests this matter be considered at the February 17, 2010 administrative meeting with its filing in RM17.

Respectfully submitted,



Kimberly A. Curry

Attachments

cc: Paula Carmody, Office of People's Counsel

ATTACHMENT 1

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Schedule 1 Discount Rate for Purchase of Supplier Receivables

The Discount Rate for Purchase of Supplier Receivables (Discount Rate) recovers prudently incurred costs arising from the purchase of Supplier Receivables as part of BGE's Gas Choice Programs. The Discount Rate is re-calculated each year and is effective for the 12 months beginning with the purchase of supplier receivables in February of the following year pending Commission approval. The Discount Rate will consist of charges based on estimated data for the current November through October period and a reconciliation of estimated and actual data from the prior November through October period (the "Reconciliation Component").

A. Eligible Costs

1. Uncollectible Expense Component: These costs include all uncollectible expenses associated with BGE's obligation to purchase supplier receivables.
2. Operation Cost Component: These costs include, but are not limited to the credit and collection function and other operational costs directly associated with COMAR 20.59.
3. Risk Component: This component ~~of 1.25%~~ will be paid to the Company for retention by their shareholders to compensate them for the risk associated with the ~~continuation of the supplier-customer relationship~~ purchase of supplier receivables.

B. Calculation of Discount Rate

1. The initial (unadjusted) Discount Rate for Residential Service Customers served under Schedule D of the Gas Service Tariff and General Service Customers served under Schedule C of the Gas Service Tariff, excluding Daily Metered customers, is calculated as follows:
 - a) The Uncollectible Expense Component percent will be calculated by dividing the estimated ~~Gas Supplier~~ gas commodity uncollectible expenses associated with ~~each rate schedule Residential Service and General Service Customers~~ by the estimated gas commodity revenues ~~billed for all Gas Suppliers for that~~ respective to each of those rate schedules.
 - b) The Operation Cost Component percent will be calculated by dividing the estimated Gas Supplier credit and collection expenses and other operational costs directly associated with COMAR 20.59 by the estimated gas commodity revenues billed for all Gas Suppliers.
 - c) The Risk Component percent will be computed as 20% of the Uncollectible Expense Component, not to exceed 0.25%. ~~The Risk Component percent will remain fixed at 1.25%.~~
 - d) The initial Discount Rate is derived by adding the Uncollectible Expense Component (a), the Operation Cost Component (b) and the Risk Component (c).
2. The Reconciliation Component is calculated on the Imbalance for each rate schedule. Imbalances are recorded in a balancing segment regulatory asset or regulatory liability and represent the differences between cumulative costs eligible for recovery and discount amounts for purchased receivables. During its disposition, an Imbalance earns interest at the Company's most recent authorized gas system rate of return. Such rate is adjusted for taxes, when the Imbalance represents an under-collection of costs to the Company. The Reconciliation Component rate is calculated by dividing the Imbalance, including interest earned or owed, for each rate schedule by

the estimated gas commodity revenues billed for all Gas Suppliers for that rate schedule.

3. The final Discount Rate is derived by adding up the initial rate calculated in B.1 above to the true-up rate calculated in B.2 above.

The Discount Rate is as follows:

| <u>Rate Schedule</u> | <u>Discount Rate</u> |
|------------------------------|-------------------------------|
| Residential – Schedule D | 0.00 <u>2.38</u> % |
| General Service – Schedule C | 0.00 <u>0.85</u> % |

BGE will file the calculation of the Discount Rate with the PSC by December 31 of each year with the revised percents to be effective with the purchase of receivables beginning in February of the following year pending Commission approval.

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Schedule 1

Discount Rate for Purchase of Supplier Receivables

The Discount Rate for Purchase of Supplier Receivables (Discount Rate) recovers prudently incurred costs arising from the purchase of Supplier Receivables as part of BGE's Gas Choice Programs. The Discount Rate is re-calculated each year and is effective for the 12 months beginning with the purchase of supplier receivables in February of the following year pending Commission approval. The Discount Rate will consist of charges based on estimated data for the current November through October period and a reconciliation of estimated and actual data from the prior November through October period (the "Reconciliation Component").

A. Eligible Costs

1. Uncollectible Expense Component: These costs include all uncollectible expenses associated with BGE's obligation to purchase supplier receivables.
2. Operation Cost Component: These costs include, but are not limited to the credit and collection function and other operational costs directly associated with COMAR 20.59.
3. Risk Component: This component will be paid to the Company for retention by their shareholders to compensate them for the risk associated with the purchase of supplier receivables.

B. Calculation of Discount Rate

1. The initial (unadjusted) Discount Rate for Residential Service Customers served under Schedule D of the Gas Service Tariff and General Service Customers served under Schedule C of the Gas Service Tariff, excluding Daily Metered customers, is calculated as follows:
 - a) The Uncollectible Expense Component percent will be calculated by dividing the estimated gas commodity uncollectible expenses associated with Residential Service and General Service Customers by the estimated gas commodity revenues respective to each of those rate schedules.
 - b) The Operation Cost Component percent will be calculated by dividing the estimated Gas Supplier credit and collection expenses and other operational costs directly associated with COMAR 20.59 by the estimated gas commodity revenues billed for all Gas Suppliers.
 - c) The Risk Component percent will be computed as 20% of the Uncollectible Expense Component, not to exceed 0.25%.
 - d) The initial Discount Rate is derived by adding the Uncollectible Expense Component (a), the Operation Cost Component (b) and the Risk Component (c).
2. The Reconciliation Component is calculated on the Imbalance for each rate schedule. Imbalances are recorded in a balancing segment regulatory asset or regulatory liability and represent the differences between cumulative costs eligible for recovery and discount amounts for purchased receivables. During its disposition, an Imbalance earns interest at the Company's most recent authorized gas system rate of return. Such rate is adjusted for taxes, when the Imbalance represents an under-collection of costs to the Company. The Reconciliation Component rate is calculated by dividing the Imbalance, including interest earned or owed, for each rate schedule by the estimated gas commodity revenues billed for all Gas Suppliers for that rate schedule.

3. The final Discount Rate is derived by adding up the initial rate calculated in B.1 above to the true-up rate calculated in B.2 above.

The Discount Rate is as follows:

| <u>Rate Schedule</u> | <u>Discount Rate</u> |
|------------------------------|----------------------|
| Residential – Schedule D | 2.38% |
| General Service – Schedule C | 0.85% |

BGE will file the calculation of the Discount Rate with the PSC by December 31 of each year with the revised percents to be effective with the purchase of receivables beginning in February of the following year pending Commission approval.

ATTACHMENT 2

GAS DISCOUNT RATE CALCULATION

| | | Total | Residential | Non-Residential |
|---|--|----------------|-------------|-----------------|
| 1. Gas Uncollectible Expense Component | | | | |
| a | Gas Residential Commodity Bad Debt | \$ 7,137,502 | | |
| b | Gas Non- Residential Commodity Bad Debt | \$ 802,441 | | |
| c | Gas Residential Commodity Revenues | \$ 335,137,374 | | |
| d | Gas Non- Residential Commodity Revenues | \$ 112,415,168 | | |
| e = a/c | Gas Residential Uncollectible Expense Component | | 2.13% | |
| f = b/d | Gas Non- Residential Uncollectible Expense Component | | | 0.71% |

Note: Used the actual 11/08 - 10/09 time period as an estimate for the upcoming period

2. Gas Program Development Cost Component

| | |
|---------|--|
| a | Total Gas Program Develop Costs to Recover |
| b | Amount to recover in Year 1 of 3 |
| c | Estimated 11/09 - 10/10 Gas Supplier Revenues <i>(assumes 10% increase vs. prior 12 months)</i> |
| d = b/c | Program Development Cost Component |

Note: BGE has proposed to continue collecting these costs through the GCRC, see below for impact if denied

3. Gas Operation Cost Component

| | | |
|-------------------------------|-------|-------|
| Gas Operations Cost Component | 0.00% | 0.00% |
|-------------------------------|-------|-------|

Note: BGE has not identified any incremental costs for the 11/09 - 10/10 time period

GAS DISCOUNT RATE CALCULATION

| | | Total | Residential | Non-Residential |
|------------------------------|--|-------|-------------|-----------------|
| 4. Gas Risk Component | | | | |
| a | Gas Residential Uncollectible Expense Component | | 2.13% | |
| b | Gas Non-Residential Uncollectible Expense Component | | | 0.71% |
| c | Risk factor applied to Gas Uncollectible Expense Component | 0.20 | | |
| d = a*c | Calculated Risk Component | | 0.43% | 0.14% |
| e | Risk Component - capped at .25% | | 0.25% | 0.14% |

5. Gas Reconciliation Component

Note: None in first year

| | | |
|----------------------------------|--------------|--------------|
| Discount Rate for Gas POR | 2.38% | 0.85% |
|----------------------------------|--------------|--------------|

Computation if Gas Program Development Costs are recovered through the discount rate
To be included in the discount only if recovery is not continued in the GCRC

2. Gas Program Development Cost Component

| | | | | |
|---|--|----------------|--------------|--------------|
| a | Remaining Estimated Gas Program Develop Costs to Recover | \$ 713,157 | | |
| b | Amount to recover in Year 1 of 3 | \$ 312,006 | | |
| c | Estimated 11/09 - 10/10 Gas Supplier Revenues <i>(assumes 10% increase vs. prior 12 months)</i> | \$ 130,660,146 | | |
| d = c/b | Program Development Cost Component | 0.24% | 0.24% | 0.24% |
| Discount for Gas POR - including Program Development | | | 2.62% | 1.09% |