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*Via Electronic Filing*

January 15, 2010

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

**Re: Administrative Docket Rulemaking No. 17: Compliance Filing of Baltimore Gas and Electric Company to Commission's October 7, 2009 Order Supplement 441 to P.S.C. Md E-6**

Dear Ms. Romine:

Baltimore Gas and Electric Company (BGE) hereby submits this compliance filing to the Commission's December 8, 2009 Order (Order). In that Order, 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. BGE has since calculated its discount rate as 1.39% for residential customers, 1.27% for POLR Type I, 0.68% for POLR Type II and 0.24% for Hourly-Priced Service 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. However, in a good faith effort to bridge the gap, BGE makes several changes to its prior proposal herein.<sup>1</sup>

Accordingly, 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.

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<sup>1</sup> BGE did elect to revise its Risk Component from the 1.25% that it previously filed in its November 6 Compliance Plan to the methodology that is proposed herein, which is to calculate the Risk Component as 20% of the Electric 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 electric supply revenues. BGE also agreed to expand the number of discount rates from two (residential and non-residential) to four (residential, POLR Type I and II, and Hourly Priced-Service).

Attachment 2 to this letter is a spreadsheet supporting its discount rate calculation. Below are the electric discount rates, by service type.

	Residential	POLR Type I	POLR Type II	Hourly-Service
Uncollectible Expense	1.10%	1.00%	0.51%	0.14%
Program Development	0.07%	0.07%	0.07%	0.07%
Operation Cost	0.00%	0.00%	0.00%	0.00%
Risk	0.22%	0.20%	0.10%	0.03%
Discount Rate	1.39%	1.27%	0.68%	0.24%

BGE's discount rate is designed to recover uncollectible expenses, Program Development Costs, operation costs, and incorporates a Risk Component, as permitted by the Commission's October 8 Order on BGE's compliance plan. Any over- or under-collections will be reconciled annually through a reconciliation mechanism.

Some parties have expressed concern about recovering Program Development Costs through the initial discount rate due to the limited number of customers currently shopping. The Commission Staff has recommended delaying any cost recovery to a time when larger numbers of customers have switched. Parties were also concerned about the impact of Program Development Costs on the Hourly-Priced Service customers, who historically have a comparatively low bad debt experience. BGE believes that recovering Program Development Costs from all customers is sound ratemaking and has a minimal impact on delivery rates. Therefore, BGE respectfully requests that the Commission consider allowing BGE to recover Program Development Costs through the normal rate making process. If Program Development Costs were recovered through base rates, it would increase base rates by only .003 cents per kWh for one year. If this approach is approved, the applicable discount rates would be 1.32% for residential customers, 1.20% for POLR Type I, 0.61% for POLR Type II and 0.17% for Hourly-Service customers.

### **Electric Uncollectible Expense Component**

BGE will initially estimate the uncollectible component of the discount rate by dividing its electric supply (POLR) bad debt experience from November 2008 to October 2009 by its POLR 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 electric supply bad debt experience by the total Electric Supply revenues for the same time period. BGE will calculate a separate Uncollectible Expense Component rate for residential, POLR Type I, POLR Type II, and Hourly-Priced Service 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.

### **Program Development Cost Component**

BGE is separately recording the costs incurred to implement the requirements of RM17. BGE will amortize that amount over three years, initially applying its most recently authorized rate of return from Case No. 9036 to the unamortized balance, updating this rate of return in future calculations when and if BGE files an electric base rate case and is awarded an electric distribution rate of return. BGE will divide the amount to be recovered in each of the three years by the estimated electric 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.

### **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 RM17 enhancements on its operating costs, and will include any incremental RM17 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, Program Development, and Operation Cost Component. Any imbalance will earn interest at the Company's authorized rate of return awarded in its most recent gas base rate case. This component will increase the discount rate if BGE is under-collected and decrease the discount rate if BGE is over-collected. BGE will calculate a separate Reconciliation Component rate for residential, POLR Type I, POLR Type II and Hourly-Priced Service 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 Electric Uncollectible Expense Component, not to exceed 0.25%. For example, if the Electric Uncollectible Expense Component is calculated to be 1.00% the Risk Component would be 0.20%. However, if the Electric 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, POLR Type I, POLR Type II, and Hourly-Priced Service 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 electric customer billings in the first

Terry J. Romine, Executive Secretary

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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 electric supply uncollectible experience to determine the Electric 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 electric supply 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 the discount is disallowed, BGE proposes to increase the Risk Component to compensate for the increased risks.

BGE respectfully requests that the Commission approve the tariff sheets provided as Attachment 1 to this letter.

Respectfully submitted,



Kimberly A. Curry

Attachments

KAC:jdb

cc: Paula Carmody, Office of People's Counsel

**ATTACHMENT 1**

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### Schedule 3

## 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 Electric Choice Program. 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. Program Development Cost Component: These costs include, but are not limited to the programming, testing and other information technology costs directly associated with COMAR 20.53.
3. Operation Cost Component: These costs include, but are not limited to the credit and collection function and other operational costs directly associated with COMAR 20.53.
4. 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 is separated into the Service Types of Residential Standard Offer Service, POLR Type I, POLR Type II and Hourly-Priced Service ~~for Residential Service Customers served under Schedules R, RL-1, RL-2 and ES of the Retail Electric Service Tariff and Non-Residential Customers served under Schedules G, GS, GL and P of the Retail Electric Service Tariff~~ is calculated as follows:
  - a) The Uncollectible Expense Component percent will be calculated by dividing the estimated ~~Electric—Supplier~~ electric supply uncollectible expenses associated with each ~~rate schedule~~ Service Type by the electricity revenues billed respective to each Service Type. ~~for all Electricity Suppliers for the applicable rate schedules~~.
  - b) The Program Development Cost Component percent will be calculated by ~~dividing-amortizing~~ the estimated programming, testing and other information technology costs directly associated with COMAR 20.53 over three years, applying its most recently authorized rate of return to the unamortized balance. BGE will divide the amount to be recovered in each of the three years by the estimated electricity revenues billed for all Electricity Suppliers in each of those years.
  - b) The Operation Cost Component percent will be calculated by dividing the estimated Electricity Supplier credit and collection expenses and other operational costs directly associated with COMAR 20.53 by the estimated electricity revenues billed for all Electricity Suppliers.
  - c) ~~The Risk Component percent will remain fixed at 1.25%. 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 Program Development Cost Component (b), the Operation Cost Component (c) and the Risk

## Component (d).

2. The Reconciliation Component is calculated on the Imbalance separately for each Service Type residential and non-residential customers. 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, separately for residential and non-residential customers by the estimated electricity revenues billed for all Electricity Suppliers for those rate schedules.
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>Service Type</u>	<u>Discount Rate</u>
<del>Residential— Schedules R, RL-1, RL-2 and ES</del>	<del>0.00%</del> <u>1.39%</u>
<u>POLR Type</u>	<u>1.27%</u>
<u>POLR Type II</u>	<u>0.68%</u>
<u>Hourly-Priced Service</u>	<u>0.24%</u>
<del>Non-Residential— Schedule G, GS, GL and P</del>	<del>0.00%</del>

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.

If there are unrecovered eligible costs directly associated with COMAR 20.53 and an insufficient number of Electricity Suppliers are using Electric Company Consolidated Billing to support the recovery of those costs, the Company is permitted to impose a charge on applicable Electricity Suppliers to recover such costs.

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### **Schedule 3**

## **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 Electric Choice Program. 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. **Program Development Cost Component:** These costs include, but are not limited to the programming, testing and other information technology costs directly associated with COMAR 20.53.
3. **Operation Cost Component:** These costs include, but are not limited to the credit and collection function and other operational costs directly associated with COMAR 20.53.
4. **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 is separated into the Service Types of Residential Standard Offer Service, POLR Type I, POLR Type II and Hourly-Priced Service is calculated as follows:
  - a) The Uncollectible Expense Component percent will be calculated by dividing the estimated electric supply uncollectible expenses associated with each Service Type by the electricity revenues billed respective to each Service Type.
  - b) The Program Development Cost Component percent will be calculated by amortizing the estimated programming, testing and other information technology costs directly associated with COMAR 20.53 over three years, applying its most recently authorized rate of return to the unamortized balance. BGE will divide the amount to be recovered in each of the three years by the estimated electricity revenues billed for all Electricity Suppliers in each of those years.
  - b) The Operation Cost Component percent will be calculated by dividing the estimated Electricity Supplier credit and collection expenses and other operational costs directly associated with COMAR 20.53 by the estimated electricity revenues billed for all Electricity 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 Program Development Cost Component (b), the Operation Cost Component (c) and the Risk Component (d).
2. The Reconciliation Component is calculated on the Imbalance separately for each Service Type. 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, separately for residential and non-residential customers by the estimated electricity revenues billed for all Electricity Suppliers for those rate schedules.

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>Service Type</u>	<u>Discount Rate</u>
Residential	1.39%
POLR Type	1.27%
POLR Type II	0.68%
Hourly-Priced Service	0.24%

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.

If there are unrecovered eligible costs directly associated with COMAR 20.53 and an insufficient number of Electricity Suppliers are using Electric Company Consolidated Billing to support the recovery of those costs, the Company is permitted to impose a charge on applicable Electricity Suppliers to recover such costs.

**ATTACHMENT 2**

# ELECTRIC DISCOUNT RATE CALCULATION

		Total	Residential	Type 1	Type 2	Hourly
<b>1. Electric Uncollectible Expense Component</b>						
a	Electric Res POLR Bad Debt	\$ 16,641,450				
b	Electric Non-Res POLR Bad Debt	\$ 2,923,902		\$ 1,413,806	\$ 1,465,311	\$ 44,784
c	Electric Res POLR Revenues	\$ 1,508,793,139				
d	Electric Non-Res POLR Revenues	\$ 459,351,309		\$ 140,734,501	\$ 287,361,146	\$ 31,255,662
e = a/c	Electric Residential Uncollectible Expense Component		1.10%			
f = b/d	Electric Non- Residential Uncollectible Expense Component			1.00%	0.51%	0.14%

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

## 2. Electric Program Development Cost Component

a	Total Estimated Electric Program Develop Costs to Recover	\$ 671,467				
b	Amount to recover in Year 1 of 3	\$ 293,767				
c	Estimated 11/09 - 10/10 Electric Supplier Revenues <i>(assumes 10% increase vs. prior 12 months)</i>	\$ 408,559,538				
d = b/c	Electric Program Development Cost Component		0.07%	0.07%	0.07%	0.07%

## 3. Electric Operation Cost Component

Electric Operation Cost Component	0.00%	0.00%	0.00%	0.00%
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*Note: BGE has not identified any incremental costs for the 11/09 - 10/10 time period*

# ELECTRIC DISCOUNT RATE CALCULATION

		Total	Residential	Type 1	Type 2	Hourly
<b>4. Electric Risk Component</b>						
a	Electric Residential Uncollectible Expense Component		1.10%			
b	Electric Non-Residential Uncollectible Expense Component			1.00%	0.51%	0.14%
c	Risk factor applied to Electric Uncollectible Expense Component	0.20				
d = a*c	Calculated Risk Component		0.22%	0.20%	0.10%	0.03%
e	Risk Component - capped at .25%		0.22%	0.20%	0.10%	0.03%

## 5. Electric Reconciliation Component

*Note: None in first year*

<b>Discount Rate for Electric POR</b>	<b>1.40%</b>	<b>1.28%</b>	<b>0.68%</b>	<b>0.24%</b>
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