

More Calculations of a Maryland Take-Over of BGE

Thanks to Chris Bush for this analysis:

In 2005, BGE owned \$4.742 Billion dollars in assets.

Baltimore Gas and Electric Company and Subsidiaries Summary of Financial Condition

	2005	2004	2003	2002	2001(In millions)
.Total Assets	\$4,742.1	\$4,662.9	\$4,706.6	\$4,779.9	\$4,954.5

http://www.constellationenergy.com/investors/financialdocs/10-K_2005.pdf

Subtract from these assets the "stranded costs" of \$548,000,000. That nets out to \$4.194 Billion dollars in assets. At 8% interest (the prime rate), these households would have to pay \$23.66 a month (calculated by dividing an aggregate monthly payment of \$28.4 Million divided by 1,204,000 ratepayers [1,084,000 households and 120 thousand business ratepayers] to pay off these assets over 50 years (which would then total \$17.1 billion dollars-interest included; that's \$13 Billion dollars in interest). This sets all ratepayers as sharing equally in the assets.

On the other hand, businesses-even with their small numbers- use more electricity than households: 19.5 Million megawatthours (mwh) for businesses vs 13.7 Million mwh for households (both combined use 33.3 Million mwh)(see page 14 of the constellation.com link [note: BGE identifies businesses which use its transmission lines, but get power elsewhere, from an "alternative supplier"- "Delivery Service Only"-as well as business which get full service from BGE; further calculations could be done to allocate costs here as well, perhaps by allocating assets between the cost of transmission lines and power plants, so as to allocate ratably between those businesses that use both transmission lines and power plants, and those that just use transmission lines; that has not been done for these purposes, but is a factor to keep in consideration; similar calculations could be done for residential ratepayers, but most use both transmission and power plants, apparently]).

With businesses paying a ratable amount of the total electricity usage for their share of the takeover, then the household cost would drop substantially to \$10.80 a month, by having residential ratepayers only pay 41% of the cost of the assets involved in the takeover (since residential ratepayers only use 41% of the power distributed)(if residential ratepayers paid for assets based on the power produced and distributed-and also setting aside those business that use the transmission lines only, for instance-the residential percentage would rise to 62%, and the household cost would be \$16.29 [even if-IF- this allocation were made, after the adjustments below, the monthly increase would STILL be lower than the Legislature's 18% Sellout Law]; this would not be fair, however, because even those businesses which only pay for electricity transmission need a substantial capital investment in those power lines; it's not even clear that such "alternative suppliers" are really separate from BGE: if BGE obtains most, if not all of its power from its parent, Constellation Energy-according to discovery proceedings in the Baltimore lawsuit-it might not even be accurate to say that such "delivery service only" transactions are really transmissions only, as opposed to both transmission and production transactions involving both BGE plants and power lines; these considerations, therefore, appear to create a somewhat problematic issue for arriving at such allocations, so a reliable benchmark would be the amount of electricity distributed, which is 41% of the total for residential ratepayers, and thus the allocation of 41% of the cost of assets in the takeover).

I've created an amortization schedule of payments to BGE for such a payoff (anyone interested in obtaining a copy of the amortization schedule, please email me). Again, while the total payoff

price to ALL ratepayers-residential and business- would be \$17.1 billion dollars-including interest at 8%-this is much cheaper than the amount paid over the next 50 years with BGE's planned increases for RESIDENTIAL RATEPAYERS ALONE: the 72% increase alone would result in additional payments of \$38.3 Billion dollars, over twice as much! (124% to be exact).

\$10.80 is only 18% of the expense of the additional \$59 a month people will have to pay if BGE gets it's 72% increase, which is scheduled to occur by June 1, 2007. It's even less than the \$14.76 initial increases residential ratepayers would have to pay with the Legislative Sellout's 18% phase one hike.

To the best of my calculations, the electricity portion of the average BGE bill now is \$82 a month (calculated by dividing total residential revenue of \$1.066 Billion over 1.084 Million households divided by 12 months [see page 14 of the 10-K for the source info]. (Note: Paul Moore, the Baltimore Sun's Public Editor, in the baltsun.com link "may 07" on May 7, 2006, indicated that the *median* BGE bill was \$67; furthermore, Moore indicated that the electricity portion of the bill would actually increase by 125%, so the over BGE bill would rise 72%; see paragraphs 7-11, and 12-13 respectively).

http://www.baltimoresun.com/news/opinion/oped/bal-id.moore07may07_0_5560441.column?coll=bal-opinion-utility

After the 72% rate increase, that amount will rise by \$59 to \$141 a month. However, if Marylandization occurred (which can be forced through eminent domain), the increase for residential ratepayers would only be \$10.80 a month, and all ratepayers-by way of the state of Maryland- would then own all the BGE assets: power plants, transmission lines, and such. As owners, there is no cost reason why ratepayers should pay any additional increases. Therefore, Marylandization makes sense, and gives real rate protection to the ratepayers.

But wait, it gets better. BGE's net income (it's profit) for 2005 was \$189,000,000. The residential portion of that is \$67 Million. That's equal to a CUT of \$5.15 in rates which would NOT have to be paid because the ratepayers would now own the company. Take \$10.80, and subtract \$5.15, and the amount of the increase is reduced to \$5.65 a month. Then, subtract out state and federal income taxes of \$3.27, and the net increase would be \$2.38 a month, AND, NO further hikes would occur. This is a 3% increase only.

In contrast, the legislative sellout raises rates by 18% as well-upfront (15% plus the \$2.19 a month in deferred costs, which adds 3% more to a ratepayers' bill), but much larger increases are in store within a year. With Marylandization, rates would go up ONLY 3%, and that would be it. No more increases would occur, and we'd own the power. (Since Maryland produces most of its power cheaply-from coal and nuclear-there is no basis for the rate increases the Legislature approved; cost based systems are much cheaper than market based systems; for instance, Hagerstown-which publicly owns its electricity company [along with 2009 other municipalities in Maryland]-pays 18% LESS in rates than BGE/Constellation).

If the payoff was over a much longer period, say 200 years, the monthly payment would drop substantially more: although this would increase the total amount paid to BGE. The upside is that BGE/Constellation might not want to wait that long to recover the funds, so there would be additional pressure on them to sell such long term "utility bonds" to recoup funds more quickly, which would lower the value of the takeover. BGE/Constellation might try to insist on receiving cash-instead of bonds-for the payoff, but here the Legislature should be tough, and only pay them with super long term bonds (the Legislature does not have \$4.194 Billion dollars in liquidity; it would have to borrow such funds to payoff BGE- why not issue bonds to BGE instead? Make BGE carry the bonds, instead of a third party). Even 50 years is a long time: long term corporate bonds often go for just 30 years. The shorter the time period, the higher the monthly cost, but the lower the overall takeover cost. At 30 years, the initial monthly takeover amount (before reduction in taxes) would rise to \$11.67 dollars. After profit and tax adjustments, the monthly

takeover cost would still be low, at \$3.25 a month. In any event, from whomever the state borrows the funds, the savings to residential ratepayers will be enormous.

A cost based re-regulation would also work: by keeping the rates frozen, this is good because residential ratepayers would not have to pay the additional \$2.38 to buy BGE; but, with re-regulation, BGE will be constantly trying to manipulate data to attempt to sneak through increases which are not justified. With Marylandization, this won't occur.

Either way, we should NOT have to go along with the legislative sellout.