

MEMORANDUM

**TO:** Transportation, Infrastructure, Energy and Environment/  
Management and Fiscal Policy Committee

**FROM:** *MF* Michael Faden, Senior Legislative Attorney  
Leslie Rubin, Legislative Analyst, Office of Legislative Oversight<sup>1</sup> *LR*

**SUBJECT:** **Worksession 4:** Expedited Bill 15-10, Taxation – Fuel-Energy Tax – Rate  
Resolution to change fuel/energy tax rates

This is the joint Committees' fourth worksession on Expedited Bill 15-10, Taxation – Fuel-Energy Tax – Rate and the companion resolution to change fuel/energy tax rates, both sponsored by the Council President at the request of the County Executive and introduced on March 23, 2010.

On April 22, the Executive proposed increasing the fuel/energy tax<sup>2</sup> rates by 100% for both residential and non-residential taxpayers, which would double the revenue raised from the tax. This followed his two previous proposals, each of which would have raised the tax rate by a lower amount. The Executive's proposal would raise the average annual energy tax bill for each residential customer by an estimated \$98 (from \$99 to \$197) and for each non-residential customer by \$2,459 (from \$2,618 to \$5077). See table on ©56. (In our view the average annual or monthly tax bill is a somewhat useful point of comparison for residential users even though household energy use varies considerable; it is a much less useful number for non-residential users because the variations can be orders of magnitude greater.)

The Executive's proposed rates for each type of energy are shown on ©7. The current rates, which the tax would revert to on July 1, 2012 under the Executive's proposal, are shown on ©8. The "short form" rates, using 5 decimal places instead of 10, as Council staff recommends, are shown on ©9-10.

At the Committees' last worksession, Executive Branch staff also endorsed reallocating how the tax is apportioned between residential and non-residential rate payers while still raising the same amount of revenue in FY11. Tax rates for non-residential rate payers currently are 2 2/3 times the residential tax rates.

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<sup>1</sup> Thank you to OLO Research Associate Sarah Downie, who contributed to the analysis of this issue.

<sup>2</sup> Hereinafter, the energy tax.

Based on interest expressed by Councilmembers and the Executive's current recommendation, data in this packet illustrate two scenarios introduced at the last worksession to reapportion the burden of this tax increase between residential and non-residential customers (#3 – 60/40 and #4 – 50/50) and one scenario that maintains the current distribution of the tax for comparison (#1 – 73/27).

The Executive's April 22 proposal would implement the rate increase as of May 1, raising an additional \$21 million in FY10, and would sunset the tax rate increase at the end of FY12. The next table summarizes how the revenue would be raised in FY11 from each scenario.

**Scenarios to Allocate Energy Tax Increase between Residential and Non-Residential Rate Payers (\$ in millions)**

|   | FY10 Projected | FY11 Scenarios             |         |         |
|---|----------------|----------------------------|---------|---------|
|   |                | #1<br>(current allocation) | #3      | #4      |
| Projected total revenue (\$ in millions)                          | \$132.2*       | \$265                      |         |         |
| Non-residential revenue   | \$96.2         | \$192.8                    | \$176.2 | \$163.2 |
| Residential revenue   | \$36.0         | \$72.2                     | \$88.7  | \$101.7 |
| Share of Increased Tax Revenue<br>(Non-Residential / Residential) | n/a            | 73/27                      | 60/40   | 50/50   |

\*Does not include additional FY10 revenue if tax increase takes effect as of May 1.  
Source: Executive Branch data

**Issues**

**1) Bill or resolution?** The Council could change the rates of this tax by a simple resolution, as it has done each time for at least the last 2 decades, or it could insert the rates in the County Code by enacting Bill 15-10, as the Executive originally proposed (as part of a larger bill). Enacting a Bill would be necessary if the Council wants to revise any aspect of the tax other than the rates, but we have not heard any such amendment proposed. **Council staff recommendation:** adopt the pending resolution, which can take effect immediately without Executive approval. (See Issue 4 below for a discussion of when any tax increase should take effect.) Keep the Bill on hold if any further amendments are needed.

**2) How much more revenue should the energy tax raise?** The County Executive's final proposal would raise an additional \$133 million in FY11 and \$21.4 million in FY10. Executive staff insist that the FY10 increase is necessary to bring the fiscal year-end reserves to an acceptable level. The size of the ultimate FY11 increase is influenced by macro budget factors that are beyond the scope of this memo. **Council staff recommendation:** increase the energy tax rates in FY10 to raise an added \$21.4 million. Increase the rates in FY11 to raise the amount needed to balance the budget. If the Council opts for a smaller increase than the Executive proposed, this can be calculated by simply reducing the applicable rates across the board (for example, by 95%, 90%, etc. of the Executive's proposed rates).

3) **How would any rate increase impact residential and non-residential taxpayers?** The energy tax, since about 1994, has had 2 separate rate schedules – one for residential rate payers and one for non-residential rate payers. See ©7-10. Currently, non-residential tax rates are 2 2/3 times the rates for residential rate payers, resulting in non-residential consumers paying 73% of all energy tax revenue and residential consumers paying 27%.

*Economic analysis: Impact of tax increase on businesses.* Business representatives supported spreading the tax burden more evenly between residential and non-residential taxpayers. Homeowner representatives (other than anti-tax activist Robin Ficker) did not testify at the hearing on this proposal. At Councilmember Leventhal’s request, Jacob Sesker, economist with the Planning staff, analyzed the probable impact of an energy tax increase on County businesses. His memo (see ©53) drew several conclusions:

*Impact on existing businesses:*

- Commercial landlords and tenants with existing leases may renegotiate rents to account for a tax rate increase.
- If increased fuel/energy tax rates impact the continuing viability of businesses (i.e., result in higher commercial vacancy rates), “increased revenue from the Fuel/Energy Tax could be offset by reduced taxes from other sources (e.g., income tax and property tax).”

*Impact on commercial property values:*

- Because of the proposed sunset date, it is unlikely that a tax rate increase will result in lower land values because “the value of commercial property is largely based on the value of the income stream it produces, and most of the years of that income stream will be beyond the sunset of the tax increase.”

*Impact on the County’s ability to attract and retain businesses:*

- Estimating the effect of a tax rate increase on the County’s ability to attract or retain businesses “would be difficult” because the County’s ability to attract businesses is affected by all the County’s regulatory costs and the regulatory costs of neighboring jurisdictions. “It is quite likely, however, that property owners seeking to attract a major bioscience facility or GSA tenant will ask the County for a subsidy to offset the tax increase.”

**Options.** At the last worksession, OLO staff used Executive Branch data to illustrate options to reallocate the tax burden differently between residential and non-residential consumers. The data tables in this packet carry over 3 of the scenarios from the last worksession: 1, 3, and 4 (at ©57-61). We dropped scenario 2 (66/34) because of lack of Councilmember interest. **Each scenario assumes that the County would raise the same amount of energy tax revenue in FY11: \$265 million.**

Scenario 1 maintains the current distribution of the tax burden: – 73% from non-residential consumers, 27% from residential consumers. Scenarios 3 and 4 reallocate the burden of the *increased revenue* only between residential and non-residential rate payers as follows:

- Scenario 3 – 60% from non-residential consumers and 40% from residential consumers;
- Scenario 4 – 50% from non-residential consumers and 50% from residential consumers.

Tables in this packet show the following data:

- A graph of the distribution of the tax burden for each scenario (©57);
- A comparison of the current average annual energy tax bill with the projected FY11 average annual tax bill for each scenario (©58);
- A comparison of projected monthly energy tax bills for residential and non-residential consumers, based on different levels of electricity consumption (©59); and
- A *New Table* shows the monthly fuel/energy tax as a percentage of PEPCO monthly charge for electricity (©60).

**The new table on ©60 shows that under the Executive’s proposal, depending on the scenario used, the typical residential customer’s monthly tax on an electric bill would increase by \$5-7 for a small (500 kWh/month) user, \$10-15 for a moderate (1000 kWh/month) user, and \$52-74 for a large (5000 kWh/month) user. For a non-residential customer, the projected tax increases are shown on the bottom half of the table and range, as a percentage of that user’s monthly electric bill, from 15.2% to almost 18%.**

**Council staff recommendation:** reallocate the tax increase 50/50 between non-residential and residential customers. That would shift the overall non-residential/residential tax burden shares to 61/39 (see table on ©57).

**4) How should the tax be applied to master-metered apartment buildings?** Currently, master-metered apartment buildings served by Pepco are taxed at the higher rate charged to non-residential electricity customers because Pepco classifies them as commercial users. (Council staff has heard, but not confirmed, that Washington Gas charges the tax for natural gas delivered to master-metered apartment buildings at the residential rate.) Council staff sees 3 primary options to set rates for master-metered apartment buildings, which are summarized below and show in more detail in the table on ©61. That table identifies the impact on the tax rate (and correspondingly the tax bill) for each option.

**Options.** Council staff sees 4 options to tax master-metered apartment buildings within each revenue allocation scenario:

- **Option 1:** Keep master-metered apartment buildings in the non-residential electricity rate class and charge them the **FY11 Non-Residential Rate**. The County Executive’s current revenue assumptions are based on this option. Options 2-4 are compared to this option in the table on ©61.
- **Option 2:** Create a new rate class for master-metered apartment buildings and charge a rate **halfway between the FY11 non-residential rate and the FY11 residential rate**.
- **Option 3:** Create a new rate class for master-metered apartment buildings that charges them at their **current rate – the FY10 non-residential tax rate**.
- **Option 4:** Switch master-metered apartments to the residential rate class and charge them the **FY11 Residential Rate**.

Assuming the 50/50 scenario is selected, Council staff estimates that switching master-metered buildings to a different rate class could cost the County between \$328,000 to \$657,000 in revenue in FY11. County Department of Environmental Protection energy staff pointed out that owners of these apartment buildings generally pay negotiated electric rates, which are usually below what individual residential customers pay, and that, if the energy tax on these buildings is reduced, their owners would not be legally obligated to pass that reduction through to their tenants.

**Council staff recommendation:** study the issue further after this resolution is adopted because it is complex and the equities are not as clear as many initially assumed.

**5) When should any tax increase take effect?** The Executive originally proposed that the new rates would take effect on July 1, which has been customary when energy tax rates are raised during the operating budget process. His April 22 revision proposed accelerating the effective date to May 1 so that significant revenue would flow to the County during FY10. If the Council acts on this Bill or resolution on May 19, as now scheduled, the new rates could apply to energy delivered on or after May 1. The County Attorney concluded that doing so would be legally permissible, although Pepco and Washington Gas strongly object to doing so on legal and operational grounds.

In an April 28 letter (see ©34), Pepco “objected to the retroactive application of the proposed fuel/energy tax, arguing that it is unconstitutional under the Maryland Constitution. In a May 12 letter (see ©37), Washington Gas also opposed any Council action “that would authorize the increased energy tax to be implemented retroactively.”

**Options.** Assuming that the Council wants to achieve the Executive’s FY10 revenue goals (an additional \$21.4 million) from increasing energy tax rates, Council staff sees 2 workable options:

(1) Amend the pending resolution to make the new rates effective for energy delivered on or after May 1, 2010, at the rates that would apply in FY11.

(2) Recalculate the rates at a higher level that would raise \$21.4 million in FY10 if applied from May 20 to July 1 (“the 40-day rates”), then reduce the rates on July 1 to whatever level the Council has already agreed to. Finance Department staff calculated 40-day rates, attached at ©11.

**Council staff recommendation:** option 2 (“the 40-day rates”). Pepco staff assured us that a new set of rates could be immediately put into effect, and then modified on July 1 as needed.

**6) Sunset?** In his April 22 revision, the Executive proposed to sunset the new higher rates on July 1, 2012.

**Options.** Assuming that higher rates are adopted, Council staff sees 3 options:

(1) **1-year sunset** Revert to the current rates on July 1, 2011.

(2) **2-year sunset** Revert to the current rates on July 1, 2012.

(3) **No sunset** Keep the new rates in effect until further Council action.

**Council staff recommendation:** option 2.

| <b>This packet contains:</b>   | <b>Found at:</b> |
|--|------------------|
| <i>New items in table in bold.</i>   |                  |
| Expedited Bill 15-10   | ©1               |
| Legislative Request Report   | ©5               |
| Resolution   | ©6               |
| Rate schedule based on County Executive's April 22 proposed rate increase                              | ©7               |
| <b>Rate schedule based effective July 1, 2012 – after sunset (identical to current rates)</b>          | ©8               |
| <b>Rate schedules with 5 decimal places</b>  | ©9               |
| <b>40-day rate schedule</b>  | ©11              |
| Fiscal Impact Statement  | ©12              |
| <b>County Executive's memo re energy tax options, including scenario calculations</b>                  | ©17              |
| <b>Scenario #1 – 73/27 data table</b>  | ©21              |
| <b>Scenario #3 – 60/40 data table</b>  | ©23              |
| <b>Scenario #4 - 50/50 data table</b>  | ©26              |
| <b>Residential and Non-Residential – typical usage comparisons, by scenario</b>                        | ©27              |
| <b>Effect of shifting master metered properties to residential energy tax rate</b>                     | ©28              |
| <b>Gazette article – “Electricity distribution rates to rise” – 5-12-10</b>                            | ©29              |
| PEPCO testimony  | ©30              |
| PEPCO letter re retroactivity issue  | ©34              |
| <b>Washington Gas letter re retroactivity issue</b>  | ©37              |
| <b>PEPCO email re SOS rate reduction</b>   | ©38              |
| <b>Bruce Lee email re proposed tax increase</b>  | ©39              |
| <b>Greater Silver Spring Chamber of Commerce email re lower cost of energy</b>                         | ©42              |
| Comparison of energy tax rates among regional jurisdictions  | ©47              |
| Comparative examples of monthly electricity tax among regional jurisdictions                           | ©48              |
| Planning staff summary of economic Issues  | ©49              |
| <b>Planning staff analysis of fuel/energy tax-implications for commercial real estate</b>              | ©53              |
| Planning staff demographic data for county residents   | ©55              |
| Data on impact of proposed increase  | ©56              |
| <b>OLO Analysis of 3 scenarios for FY11:</b>   |                  |
| Allocation of revenue between residential and non-residential consumers                                | ©57              |
| Average annual tax bill for residential and non-residential consumers                                  | ©58              |
| Examples of monthly tax bills based on electricity usage   | ©59              |
| <b>Monthly fuel/energy tax as a percentage of PEPCO monthly electricity charges</b>                    | ©60              |
| <b>Fuel/energy tax options for electricity usage in master-metered residential apartment buildings</b> | ©61              |

Expedited Bill No. 15-10  
Concerning: Taxation – Fuel-Energy  
Tax - Rate  
Revised: 3-22-10 Draft No. 1  
Introduced: March 23, 2010  
Expires: September 23, 2011  
Enacted: \_\_\_\_\_  
Executive: \_\_\_\_\_  
Effective: \_\_\_\_\_  
Sunset Date: None  
Ch. \_\_\_\_\_, Laws of Mont. Co. \_\_\_\_\_

## COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

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By: Council President at the Request of the County Executive

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**AN EXPEDITED ACT to:**

- (1) increase the rates of the fuel-energy tax; and
- (2) generally amend County laws related to the fuel-energy tax.

By amending

Montgomery County Code  
Chapter 52, Taxation  
Section 52-14, Fuel-energy tax

|                              |  |
|------------------------------|--|
| <b>Boldface</b>              | <i>Heading or defined term.</i>                            |
| <u>Underlining</u>           | <i>Added to existing law by original bill.</i>             |
| [Single boldface brackets]   | <i>Deleted from existing law by original bill.</i>         |
| <u>Double underlining</u>    | <i>Added by amendment.</i>                                 |
| [[Double boldface brackets]] | <i>Deleted from existing law or the bill by amendment.</i> |
| * * *                        | <i>Existing law unaffected by bill.</i>                    |

*The County Council for Montgomery County, Maryland approves the following Act:*

1       **Sec. 1. Section 52-14 is amended as follows:**

2       **52-14. Fuel-energy tax.**

3       (a) A tax is levied and imposed on every person transmitting, distributing,  
4       manufacturing, producing, or supplying electricity, gas, steam, coal,  
5       fuel oil, or liquefied petroleum gas in the County. Beginning on July  
6       1, 2010, the tax rates in dollars are:

7       (1) For fuel-energy transmitted, distributed, manufactured,  
8       produced, or supplied for residential and agricultural purposes:

| <u>FUEL-ENERGY</u>                         | <u>TAX RATE</u>        |
|--|------------------------|
| <u>Electricity (per kilowatt hr)</u>       | <u>\$0.0072924198</u>  |
| <u>Natural Gas (per therm)</u>             | <u>\$0.0628010617</u>  |
| <u>Steam (per therm)</u>                   | <u>\$0.0822605134</u>  |
| <u>Coal (per ton)</u>                      | <u>\$18.6267531744</u> |
| <u>Fuel oil (per gallon):</u>              |                        |
| <u>No. 1</u>                               | <u>\$0.0899987212</u>  |
| <u>No. 2</u>                               | <u>\$0.0933631594</u>  |
| <u>No. 3</u>                               | <u>\$0.0933631594</u>  |
| <u>No. 4</u>                               | <u>\$0.0955500442</u>  |
| <u>No. 5</u>                               | <u>\$0.0974004852</u>  |
| <u>No. 6</u>                               | <u>\$0.0995873700</u>  |
| <u>Liquefied petroleum gas (per pound)</u> | <u>\$0.0135686262</u>  |

9       (2) For fuel-energy transmitted, distributed, manufactured,  
10       produced, or supplied for non-residential purposes:

| <u>FUEL-ENERGY</u>                   | <u>TAX RATE</u>       |
|--------------------------------------|-----------------------|
| <u>Electricity (per kilowatt hr)</u> | <u>\$0.0193251926</u> |

|  |                        |
|--|------------------------|
| <u>Natural Gas (per therm)</u>             | <u>\$0.1664230814</u>  |
| <u>Steam (per therm)</u>                   | <u>\$0.2179903605</u>  |
| <u>Coal (per ton)</u>                      | <u>\$49.3578373320</u> |
| <u>Fuel oil (per gallon):</u>              |                        |
| <u>No. 1</u>                               | <u>\$0.2384966112</u>  |
| <u>No. 2</u>                               | <u>\$0.2474123724</u>  |
| <u>No. 3</u>                               | <u>\$0.2474123724</u>  |
| <u>No. 4</u>                               | <u>\$0.2532076172</u>  |
| <u>No. 5</u>                               | <u>\$0.2581112858</u>  |
| <u>No. 6</u>                               | <u>\$0.2639065305</u>  |
| <u>Liquefied petroleum gas (per pound)</u> | <u>\$0.0359568595</u>  |

11 The County Council [must] may set the rates for various forms of fuel  
12 and energy by resolution adopted according to the requirements of  
13 Section 52-17(c). The Council may, from time to time, revise, amend,  
14 increase, or decrease the rates, including establishing different rates  
15 for fuel or energy delivered for different categories of final  
16 consumption, such as residential or agricultural use. The rates must  
17 be based on a weight or other unit of measure regularly used by [such]  
18 persons in the conduct of their business. The rate for each form of  
19 fuel or energy should impose an equal or substantially equal tax on the  
20 equivalent energy content of each form of fuel or energy for a  
21 particular category of use. The tax does not apply to the transmission  
22 or distribution of electricity, gas, steam, coal, fuel oil, or liquefied  
23 petroleum gas in interstate commerce through the County if the tax  
24 would exceed the taxing power of the County under the United States  
25 Constitution. The tax does not apply to fuel or energy converted to

26 another form of energy that will be subject to a tax under this Section.  
27 The tax must not be imposed at more than one point in the  
28 transmission, distribution, manufacture, production, or supply system.  
29 The rates of tax apply to the quantities measured at the point of  
30 delivery for final consumption in the County.

31 \* \* \*

32 **Sec. 2. Expedited Effective Date.**

33 The Council declares that this legislation is necessary for the immediate  
34 protection of the public interest. This Act takes effect on the date when it becomes  
35 law.

36 *Approved:*

37  
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39 \_\_\_\_\_  
Nancy Floreen, President, County Council Date

40 *Approved:*

41  
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43 \_\_\_\_\_  
Isiah Leggett, County Executive Date

44 *This is a correct copy of Council action.*

45  
46

47 \_\_\_\_\_  
Linda M. Lauer, Clerk of the Council Date

## LEGISLATIVE REQUEST REPORT

Expedited Bill 15-10  
Taxation – Fuel-Energy Tax – Rate

- DESCRIPTION:** This Bill would increase the rates of the fuel-energy tax.
- PROBLEM:** In order to meet current fiscal challenges facing the County, the County must increase the amount of revenue available to maintain core Government programs and services.
- GOALS AND OBJECTIVES:** To enhance the amount of revenue available to support core government programs and services.
- COORDINATION:** Office of Management and Budget; Department of Finance
- FISCAL IMPACT:** To be requested.
- ECONOMIC IMPACT:** To be requested.
- EVALUATION:** Subject to the general oversight of the County Executive and the County Council.
- EXPERIENCE ELSEWHERE:**
- SOURCES OF INFORMATION:** Joseph Beach, Director of Management and Budget  
Kathleen Boucher, Assistant Chief Administrative Officer
- APPLICATION WITHIN MUNICIPALITIES:** Tax laws apply County-wide.
- PENALTIES:** N/A

Resolution No. \_\_\_\_\_  
Introduced: March 23, 2010  
Adopted: \_\_\_\_\_

**COUNTY COUNCIL  
FOR MONTGOMERY COUNTY, MARYLAND**

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By: Council President

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**SUBJECT:** Fuel/energy tax – rates

**Background**

1. Section 52-14 of the County Code levies a tax on persons transmitting, distributing, manufacturing, producing, or supplying electricity, gas, steam, coal, fuel oil, or liquefied petroleum gas in the County.
2. Section 52-14 also provides that the County Council may amend the fuel/energy tax rates by resolution, after a public hearing advertised as required by Section 52-17. A public hearing was held on this resolution on (date).
3. The Council finds that it is fair and equitable to continue different rates for fuels and energy transmitted, distributed, manufactured, produced, or supplied for residential and agricultural purposes and for non-residential purposes.

**Action**

*The County Council for Montgomery County, Maryland, approves the following resolution:*

1. On and after July 1, 2010, the fuel/energy tax rates levied under Section 52-14 of the County Code are as shown on Schedule A, attached to this resolution.
2. This Resolution supersedes Resolution 16-553.

*This is a correct copy of Council action.*

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Linda M. Lauer, Clerk of the Council

Date

SCHEDULE A (starting May 1, 2010)

(a) For fuel-energy transmitted, distributed, manufactured, produced, or supplied for residential and agricultural purposes:

| <b>FUEL-ENERGY</b>                  | <b>TAX RATE</b> |
|-------------------------------------|-----------------|
| Electricity (per kilowatt hr)       | \$0.0104475928  |
| Natural Gas (per therm)             | \$0.0899728678  |
| Steam (per therm)                   | \$0.1178517384  |
| Coal (per ton)                      | \$26.6858928000 |
| Fuel oil (per gallon)               |                 |
| No. 1                               | \$0.1289379960  |
| No. 2                               | \$0.1337581080  |
| No. 3                               | \$0.1337581080  |
| No. 4                               | \$0.1368911808  |
| No. 5                               | \$0.1395422424  |
| No. 6                               | \$0.1426753152  |
| Liquefied petroleum gas (per pound) | \$0.0194392926  |

(b) For fuel-energy transmitted, distributed, manufactured, produced, or supplied for non-residential purposes:

| <b>FUEL-ENERGY</b>                  | <b>TAX RATE</b> |
|-------------------------------------|-----------------|
| Electricity (per kilowatt hr)       | \$0.0276865224  |
| Natural Gas (per therm)             | \$0.2384284834  |
| Steam (per therm)                   | \$0.3123071068  |
| Coal (per ton)                      | \$70.7132340000 |
| Fuel oil (per gallon)               |                 |
| No. 1                               | \$0.3416856894  |
| No. 2                               | \$0.3544589862  |
| No. 3                               | \$0.3544589862  |
| No. 4                               | \$0.3627616292  |
| No. 5                               | \$0.3697869424  |
| No. 6                               | \$0.3780895852  |
| Liquefied petroleum gas (per pound) | \$0.0515141254  |

## SCHEDULE B (starting July 1, 2012)

(a) For fuel-energy transmitted, distributed, manufactured, produced, or supplied for residential and agricultural purposes:

| <b>FUEL-ENERGY</b>                  | <b>TAX RATE</b> |
|-------------------------------------|-----------------|
| Electricity (per kilowatt hr)       | \$0.0052237964  |
| Gas (per therm)                     | \$0.0449864339  |
| Steam (per therm)                   | \$0.0589258692  |
| Coal (per ton)                      | \$13.3429464000 |
| Fuel oil (per gallon)               |                 |
| No. 1                               | \$0.0644689980  |
| No. 2                               | \$0.0668790540  |
| No. 3                               | \$0.0668790540  |
| No. 4                               | \$0.0684455904  |
| No. 5                               | \$0.0697711212  |
| No. 6                               | \$0.0713376576  |
| Liquefied petroleum gas (per pound) | \$0.0097196463  |

(b) For fuel-energy transmitted, distributed, manufactured, produced, or supplied for non-residential purposes:

|                                     |                 |
|-------------------------------------|-----------------|
| Electricity (per kilowatt hr)       | \$0.0138432612  |
| Gas (per therm)                     | \$0.1192142417  |
| Steam (per therm)                   | \$0.1561535534  |
| Coal (per ton)                      | \$35.3566170000 |
| Fuel oil (per gallon)               |                 |
| No. 1                               | \$0.1708428447  |
| No. 2                               | \$0.1772294931  |
| No. 3                               | \$0.1772294931  |
| No. 4                               | \$0.1813808146  |
| No. 5                               | \$0.1848934712  |
| No. 6                               | \$0.1890447926  |
| Liquefied petroleum gas (per pound) | \$0.0257570627  |

SCHEDULE A (starting May 1, 2010)

(a) For fuel-energy transmitted, distributed, manufactured, produced, or supplied for residential and agricultural purposes:

| FUEL-ENERGY                         | TAX RATE   |
|-------------------------------------|------------|
| Electricity (per kilowatt hr)       | \$0.01045  |
| Natural Gas (per therm)             | \$0.08997  |
| Steam (per therm)                   | \$0.11785  |
| Coal (per ton)                      | \$26.68589 |
| Fuel oil (per gallon)               |            |
| No. 1                               | \$0.12894  |
| No. 2                               | \$0.13376  |
| No. 3                               | \$0.13376  |
| No. 4                               | \$0.13689  |
| No. 5                               | \$0.13954  |
| No. 6                               | \$0.14268  |
| Liquefied petroleum gas (per pound) | \$0.01944  |
|                                     |            |
|                                     |            |

(b) For fuel-energy transmitted, distributed, manufactured, produced, or supplied for non-residential purposes:

| FUEL-ENERGY                         | TAX RATE   |
|-------------------------------------|------------|
| Electricity (per kilowatt hr)       | \$0.02769  |
| Natural Gas (per therm)             | \$0.23843  |
| Steam (per therm)                   | \$0.31231  |
| Coal (per ton)                      | \$70.71323 |
| Fuel oil (per gallon)               |            |
| No. 1                               | \$0.34169  |
| No. 2                               | \$0.35446  |
| No. 3                               | \$0.35446  |
| No. 4                               | \$0.36276  |
| No. 5                               | \$0.36979  |
| No. 6                               | \$0.37809  |
| Liquefied petroleum gas (per pound) | \$0.05151  |

## SCHEDULE B (starting July 1, 2012)

(a) For fuel-energy transmitted, distributed, manufactured, produced, or supplied for residential and agricultural purposes:

| <b>FUEL-ENERGY</b>                  | <b>TAX RATE</b> |
|-------------------------------------|-----------------|
| Electricity (per kilowatt hr)       | \$0.00522       |
| Gas (per therm)                     | \$0.04499       |
| Steam (per therm)                   | \$0.05893       |
| Coal (per ton)                      | \$13.34295      |
| Fuel oil (per gallon)               |                 |
| No. 1                               | \$0.06447       |
| No. 2                               | \$0.06688       |
| No. 3                               | \$0.06688       |
| No. 4                               | \$0.06845       |
| No. 5                               | \$0.06977       |
| No. 6                               | \$0.07134       |
| Liquefied petroleum gas (per pound) | \$0.00972       |

(b) For fuel-energy transmitted, distributed, manufactured, produced, or supplied for non-residential purposes:

|                                     |            |
|-------------------------------------|------------|
| Electricity (per kilowatt hr)       | \$0.01384  |
| Gas (per therm)                     | \$0.11921  |
| Steam (per therm)                   | \$0.15615  |
| Coal (per ton)                      | \$35.35662 |
| Fuel oil (per gallon)               |            |
| No. 1                               | \$0.17084  |
| No. 2                               | \$0.17723  |
| No. 3                               | \$0.17723  |
| No. 4                               | \$0.18138  |
| No. 5                               | \$0.18489  |
| No. 6                               | \$0.18904  |
| Liquefied petroleum gas (per pound) | \$0.02576  |

| <b>NON-RESIDENTIAL</b> | <b>Current Rates</b> | <b>New Energy<br/>Tax Rates</b> | <b>Estimated<br/>Revenues<br/>40 Days</b> |
|------------------------|----------------------|---------------------------------|---|
| Fuel-Oil               |                      |                                 |   |
| #1                     | \$0.1708428447       | \$0.4614331590                  | \$2,156.85                                |
| #2 & #3                | \$0.1772294931       | \$0.4786829967                  | \$291,781.39                              |
| #4                     | \$0.1813808146       | \$0.4898953913                  |   |
| #5                     | \$0.1848934712       | \$0.4993828020                  |   |
| #6                     | \$0.1890447926       | \$0.5105951964                  |   |
| L P Gas                | \$0.0257570627       | \$0.0695678115                  | \$38,149.60                               |
| Electricity            | \$0.0138432612       | \$0.0373895656                  | \$22,760,208.48                           |
| Natural Gas            | \$0.1192142417       | \$0.3219883410                  | \$5,088,768.39                            |

### **RESIDENTIAL**

|             |                |                |                 |
|-------------|----------------|----------------|-----------------|
| Fuel-Oil    |                |                |                 |
| #1          | \$0.0644689980 | \$0.1741257204 | \$402.14        |
| #2 & #3     | \$0.0668790540 | \$0.1806350931 | \$200,979.85    |
| #4          | \$0.0684455904 | \$0.1848661854 |                 |
| #5          | \$0.0697711212 | \$0.1884463404 |                 |
| #6          | \$0.0713376576 | \$0.1926774326 |                 |
| L P Gas     | \$0.0097196463 | \$0.0262520043 | \$32,200.61     |
| Electricity | \$0.0052237964 | \$0.0141090654 | \$7,228,644.25  |
| Natural Gas | \$0.0449864339 | \$0.1215048388 | \$2,859,195.98  |
|             |                |                | \$38,502,487.55 |



OFFICE OF MANAGEMENT AND BUDGET

Isiah Leggett  
County Executive

Joseph F. Beach  
Director

MEMORANDUM

April 27, 2010

TO: Nancy Floreen, President, County Council

FROM: Joseph F. Beach, Director

SUBJECT: Expedited Bill 15-10, Taxation – Fuel-Energy Tax – Rate

The purpose of this memorandum is to transmit a fiscal and economic impact statement to the Council on the subject legislation.

**LEGISLATION SUMMARY**

The original proposed legislation introduced March 23, 2010 would increase fuel-energy tax rates 39.6% consistent with the County Executive's March 15 operating budget recommendation. Since March 15, the Executive has proposed two modifications to the rate increase, the latest of which was a 100% increase in fuel-energy tax rates effective May 1, 2010 included in his FY10 and FY11 operating budget amendments transmitted to the County Council on April 22, 2010. The latest proposed rates are attached to this fiscal impact statement. The Executive recommends that the 100% increase in the fuel-energy tax rates sunset at the end of FY12.

**FISCAL AND ECONOMIC SUMMARY**

The original Expedited Bill No. 15-10 increased the fuel-energy tax by 39.6% to raise \$50 million more in General Fund revenue than current rates would generate in FY11. These revenues were assumed in the Executive's March 15 recommended operating budget. The 100% increase recommended by the Executive on April 22 will produce \$101.3 million (combined over FY10 and FY11) more than assumed in the March 15 budget and is required to maintain balance in the operating budget and restore reserves to the policy level of 6% of total resources. The increase in fuel-energy tax rates will also have a fiscal impact on the operating budgets of County funded agencies and departments (see attachment for detail). The Executive recommended certain budget adjustments to accommodate some of these cost increases.

The energy tax is a broad-based tax paid by households, businesses, and all levels of government. Based on current usage patterns the recommended 100% increase will result in an increase of approximately \$8.00 per month for the average homeowner and \$289 per month for the average non-residential ratepayer. Since the energy tax is based on consumption, the amount of the tax can be reduced by decreasing energy usage, and a number of existing programs provide incentives for consumers to conserve energy.

Office of the Director

Nancy Floreen, President, County Council  
April 27, 2010  
Page 2

The following contributed to this analysis: Bryan Hunt, Office of Management and Budget,  
David Platt, Department of Finance.

JFB:bh

Attachments

- c: Kathleen Boucher, Assistant Chief Administrative Officer
- Dee Gonzalez, Offices of the County Executive
- David Platt, Department of Finance
- Bryan Hunt, Office of Management and Budget
- John Cuff, Office of Management and Budget

|                        | FY08            | FY09<br>Carbon Taxes<br>Res. No. 16-553 | Pct Change | FY10            | FY11<br>Proposed Rates | Pct.<br>Chg. | FY10-FY11<br>Proposed Rates | Pct.<br>Chg. | FY10-FY11<br>Proposed Rates | Pct.<br>Chg. |
|------------------------|-----------------|---|------------|-----------------|------------------------|--------------|-----------------------------|--------------|-----------------------------|--------------|
| <b>NON-RESIDENTIAL</b> |                 |   |            |                 |                        |              |                             |              |                             |              |
| Fuel-Oil               |                 |   |            |                 |                        |              |                             |              |                             |              |
| #1                     | \$0.1553116770  | \$0.1708428447                          | 10.0%      | \$0.1708428447  | \$0.2384966112         | 39.6%        | \$0.27966973677             | 63.7%        | \$0.34168568940             | 100.0%       |
| #2 & #3                | \$0.1611177210  | \$0.1772294931                          | 10.0%      | \$0.1772294931  | \$0.2474123724         | 39.6%        | \$0.29012468020             | 63.7%        | \$0.35445898620             | 100.0%       |
| #4                     | \$0.1648916496  | \$0.1813808146                          | 10.0%      | \$0.1813808146  | \$0.2532076172         | 39.6%        | \$0.29692039350             | 63.7%        | \$0.36276162920             | 100.0%       |
| #5                     | \$0.1680849738  | \$0.1848934712                          | 10.0%      | \$0.1848934712  | \$0.2581112858         | 39.6%        | \$0.30267061235             | 63.7%        | \$0.36978694240             | 100.0%       |
| #6                     | \$0.1718589024  | \$0.1890447926                          | 10.0%      | \$0.1890447926  | \$0.2639065305         | 39.6%        | \$0.30946632549             | 63.7%        | \$0.37808958520             | 100.0%       |
| L P Gas                | \$0.0245305359  | \$0.0257570627                          | 5.0%       | \$0.0257570627  | \$0.0359568595         | 39.6%        | \$0.04216431164             | 63.7%        | \$0.05151412540             | 100.0%       |
| Coal                   | \$29.4638475000 | \$35.3566170000                         | 20.0%      | \$35.3566170000 | \$49.3578373320        | 39.6%        | \$57.87878202900            | 63.7%        | \$70.71323400000            | 100.0%       |
| Steam                  | \$0.1419577758  | \$0.1561535534                          | 10.0%      | \$0.1561535534  | \$0.2179903605         | 39.6%        | \$0.25562336692             | 63.7%        | \$0.31230710680             | 100.0%       |
| Electricity            | \$0.0125847830  | \$0.0138432612                          | 10.0%      | \$0.0138432612  | \$0.0193251926         | 39.6%        | \$0.02266141858             | 63.7%        | \$0.02768652240             | 100.0%       |
| Natural Gas            | \$0.1135373730  | \$0.1192142417                          | 5.0%       | \$0.1192142417  | \$0.1664230814         | 39.6%        | \$0.19515371366             | 63.7%        | \$0.23842848340             | 100.0%       |
| <b>RESIDENTIAL</b>     |                 |   |            |                 |                        |              |                             |              |                             |              |
| Fuel-Oil               |                 |   |            |                 |                        |              |                             |              |                             |              |
| #1                     | \$0.0586081800  | \$0.0644689980                          | 10.0%      | \$0.0644689980  | \$0.0899987212         | 39.6%        | \$0.10553574973             | 63.7%        | \$0.12893799600             | 100.0%       |
| #2 & #3                | \$0.0607991400  | \$0.0668790540                          | 10.0%      | \$0.0668790540  | \$0.0933631594         | 39.6%        | \$0.10948101140             | 63.7%        | \$0.13375810800             | 100.0%       |
| #4                     | \$0.0622232640  | \$0.0684455904                          | 10.0%      | \$0.0684455904  | \$0.0955500442         | 39.6%        | \$0.11204543148             | 63.7%        | \$0.13689118080             | 100.0%       |
| #5                     | \$0.0634282920  | \$0.0697711212                          | 10.0%      | \$0.0697711212  | \$0.0974004852         | 39.6%        | \$0.11421532540             | 63.7%        | \$0.13954224240             | 100.0%       |
| #6                     | \$0.0648524160  | \$0.0713376576                          | 10.0%      | \$0.0713376576  | \$0.0995873700         | 39.6%        | \$0.11677974549             | 63.7%        | \$0.14267531520             | 100.0%       |
| L P Gas                | \$0.0092568060  | \$0.0097196463                          | 5.0%       | \$0.0097196463  | \$0.0135686262         | 39.6%        | \$0.01591106099             | 63.7%        | \$0.01943929260             | 100.0%       |
| Coal                   | \$11.1191220000 | \$13.3429464000                         | 20.0%      | \$13.3429464000 | \$18.6267531744        | 39.6%        | \$21.84240325680            | 63.7%        | \$26.68589280000            | 100.0%       |
| Steam                  | \$0.0535689720  | \$0.0589258692                          | 10.0%      | \$0.0589258692  | \$0.0822605134         | 39.6%        | \$0.09646164788             | 63.7%        | \$0.11785173840             | 100.0%       |
| Electricity            | \$0.0047489058  | \$0.0052237964                          | 10.0%      | \$0.0052237964  | \$0.0072924198         | 39.6%        | \$0.00855135471             | 63.7%        | \$0.01044759280             | 100.0%       |
| Natural Gas            | \$0.0428442228  | \$0.0449864339                          | 5.0%       | \$0.0449864339  | \$0.0628010617         | 39.6%        | \$0.07364279229             | 63.7%        | \$0.08997286780             | 100.0%       |

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## Impact of Proposed Increase to Energy Tax

### Average Impact to Residential and Non-Residential Taxpayers

Based on latest figures available for energy consumption (2009 Energy Tax data), housing units (2008 Census Bureau data) and business establishments (2007 Census Bureau data)

#### Residential

| Fuel Type             | Units | Units Consumed | Tax Rate | Current Tax    | Proposed 100% Increase |                | For Each 1% Increase |
|-----------------------|-------|----------------|----------|----------------|------------------------|----------------|----------------------|
|                       |       |                |          |                | Total                  | Difference     |                      |
| Electricity           | kWh   | 12,808         | 0.005224 | \$66.91        | \$133.81               | \$66.91        | \$0.67               |
| Heating Fuel          | Therm | 624            | 0.044986 | \$28.08        | \$56.16                | \$28.08        | \$0.28               |
| <b>Total</b>          |       |                |          | <b>\$94.99</b> | <b>\$189.97</b>        | <b>\$94.99</b> | <b>\$0.95</b>        |
| <b>Monthly Change</b> |       |                |          |                | <b>\$ 8</b>            |                |                      |

#### Non-Residential

Examples of Programs Funded with Energy Tax Increase

| Fuel Type             | Units | Units Consumed | Tax Rate | Current Tax       | Proposed 100% Increase |                   | For Each 1% Increase |
|-----------------------|-------|----------------|----------|-------------------|------------------------|-------------------|----------------------|
|                       |       |                |          |                   | Total                  | Difference        |                      |
| Electricity           | kWh   | 204,614        | 0.013843 | \$2,832.53        | \$5,665.06             | \$2,832.53        | \$28.33              |
| Heating Fuel          | Therm | 5,325          | 0.119214 | \$634.86          | \$1,269.72             | \$634.86          | \$6.35               |
| <b>Total</b>          |       |                |          | <b>\$3,467.39</b> | <b>\$6,934.78</b>      | <b>\$3,467.39</b> | <b>\$34.67</b>       |
| <b>Monthly Change</b> |       |                |          |                   | <b>\$ 289</b>          |                   |                      |

#### Some Examples

|   | Current Tax | Proposed 100% Increase |             | For Each 1% Increase | Monthly Difference |
|---|-------------|------------------------|-------------|----------------------|--------------------|
|   |             | Total                  | Difference  |                      |                    |
| 3,000 sq. ft., 4-bedroom, 3.5 bath house (DEP employee) | \$89.68     | \$179.35               | \$89.68     | \$0.90               | \$7.47             |
| Council Office Building (142,480 sq. ft.)               | \$47,075.00 | \$94,150.00            | \$47,075.00 | \$470.75             | \$3,922.92         |
| East County Government Center (13,700 sq. ft.)          | \$3,537.86  | \$7,075.72             | \$3,537.86  | \$35.38              | \$294.82           |

**Impact of Proposed Increase to Energy Tax**

**Impact to County Government and County Agencies**

Based on FY09 energy consumption for the County Government and FY08 energy consumption for County agencies.

|  | Current             | Proposed 100% Increase |                     |
|--|---------------------|------------------------|---------------------|
|  | Tax                 | Total                  | Difference          |
| County Government                                    | \$2,691,671         | \$5,383,341            | \$2,691,671         |
| Montgomery County Public Schools                     | \$3,706,816         | \$7,413,632            | \$3,706,816         |
| Washington Suburban Sanitary Commission              | \$3,009,002         | \$6,018,004            | \$3,009,002         |
| Maryland-National Capital Park & Planning Commission | \$259,967           | \$519,935              | \$259,967           |
| Montgomery College                                   | \$567,488           | \$1,134,975            | \$567,488           |
| <b>Total</b>   | <b>\$10,234,944</b> | <b>\$20,469,887</b>    | <b>\$10,234,944</b> |

| All Agencies        | Cost Estimate of Proposed |                   |                  | FY11<br>Amendment | FY10<br>Impact   |
|---------------------|---------------------------|-------------------|------------------|-------------------|------------------|
|                     | Mar 15 CE Rec             | Rate Increase     | Change           |                   |                  |
| MCG (Tax + Non Tax) | 996,030                   | 2,691,670         | 1,695,640        | 691,710           | 448,610          |
| MCPS                | 0                         | 3,706,820         | 3,706,820        | 0                 | 617,800          |
| WSSC                | 0                         | 3,009,000         | 3,009,000        | 0                 | 501,500          |
| MNCPPC              | 96,200                    | 259,970           | 163,770          | 163,770           | 43,330           |
| MC                  | 210,000                   | 567,490           | 357,490          | 357,490           | 94,580           |
| <b>Total</b>        | <b>1,302,230</b>          | <b>10,234,950</b> | <b>8,932,720</b> | <b>1,212,970</b>  | <b>1,705,820</b> |

| MCG Allocation      | FY09              |            | Mar 15 CE Rec  | Allocation of<br>Increase | FY11<br>Amendment | FY10<br>Impact |
|---------------------|-------------------|------------|----------------|---------------------------|-------------------|----------------|
|                     | Actual Exp.       | % of Total |                |                           |                   |                |
| Utilities NDA       | 23,605,663        | 74.30%     | 996,030        | 1,999,960                 | 0                 | 333,330        |
| Transit Services    | 82,350            | 0.26%      | 0              | 6,980                     | 6,980             | 1,160          |
| Recreation          | 3,050,374         | 9.60%      | 0              | 258,440                   | 258,440           | 43,070         |
| Tax Supported       | 26,738,387        | 84.16%     | 996,030        | 2,265,380                 | 265,420           | 377,560        |
| Fleet Mgmt Svcs     | 1,011,100         | 3.18%      | 0              | 85,660                    | 85,660            | 14,280         |
| PLD - Bethesda      | 1,167,144         | 3.67%      | 0              | 98,890                    | 98,890            | 16,480         |
| PLD - Silver Spring | 1,734,446         | 5.46%      | 0              | 146,950                   | 146,950           | 24,490         |
| PLD - MH            | 1,924             | 0.01%      | 0              | 160                       | 160               | 30             |
| PLD - Wheaton       | 97,134            | 0.31%      | 0              | 8,230                     | 8,230             | 1,370          |
| Liquor Control      | 889,147           | 2.80%      | 0              | 75,330                    | 75,330            | 12,560         |
| SWS Disposal        | 130,616           | 0.41%      | 0              | 11,070                    | 11,070            | 1,850          |
| Non Tax Supported   | 5,031,511         | 15.84%     | 0              | 426,290                   | 426,290           | 71,060         |
| <b>Total MCG</b>    | <b>31,769,898</b> |            | <b>996,030</b> | <b>2,691,670</b>          | <b>691,710</b>    | <b>448,620</b> |



OFFICE OF THE COUNTY EXECUTIVE  
ROCKVILLE, MARYLAND 20850

Isiah Leggett  
County Executive

RECEIVED  
MONTGOMERY COUNTY  
COUNCIL  
2010 MAY -6 PM 12:03

MEMORANDUM

May 6, 2010

TO: Nancy Floreen, President, County Council

FROM: Isiah Leggett, County Executive 

SUBJECT: Energy Tax Options

At the request of the joint MFP/T&E Committee I am providing the Council with additional information related to options on changes to the energy tax rates. In addition I am providing information related to the impact of scheduled changes in the Standard Offer Service (SOS) rates on the electric bill for residential and non-residential customers.<sup>1</sup> This analysis indicates that reductions in the SOS rates could more than offset the increase in the electricity portion of the fuel energy tax rate for residential customers and substantially modify the net increase in electricity bills for non residential customers.

A residential customer in the example four bedroom, 3.5 bath home could experience a reduction in their electric utility bill of \$60 annually, due to the combined impact of rate changes due to SOS and the higher fuel-energy tax rates. This can be seen in the attached analysis, which shows such a home using 1,180 kWh of electricity per month and under the current energy tax rate structure paying \$148 annually in the energy tax, an increase of \$74 annually. However, because of the projected change in rates due to SOS, their cost of electricity would decline by \$134.<sup>2</sup> The net change in the electric utility bill would be a reduction of \$60 annually.

Under my initial proposal, an Office Building using 365,876 kWh of electricity per month would see a \$61,042 annual increase in the energy tax. However, because of the projected change in the cost of SOS electricity their cost of electricity could decline

<sup>1</sup> All usage data for each category of rate payer used in the attached analyses was provided by PEPCO.

<sup>2</sup> This analysis is based on changes in Pepco's approved Schedule R SOS rates for summer 2010 versus summer 2009. Market indicators suggest similar reductions will occur in winter 2010 rates.

by \$45,178. The net change in the electric utility bill would be an increase of \$15,864 annually approximately 3% of the total electric utility bill.<sup>3</sup>

Other examples of the impact of the energy tax increase and the reduction in SOS rates are included in the attached analyses including examples that show the net difference in utility bills assuming changes in the relative burden of the tax rate increase. As currently structured, 27% of the energy tax is paid by residential rate payers and 73% is paid by non-residential rate payers. Two preferred options for changing this structure would include having 34% of the tax paid by residential rate payers and 66% by non-residential or with 40% of the tax paid by residential rate payers and 60% by non-residential. Both of these options still result in net reductions in households' electricity bills yet significantly reduce the total electricity bill increase for commercial customers.

Whatever rate structure the Council ultimately supports I believe we must remain focused on maintaining the projected revenues at the levels in my April 22 budget recommendations to the County Council. Reducing overall revenues from that level could severely impact the estimated increased energy tax revenues required in FY10 (\$21.4 million) to maintain fiscal balance in the current year and begin the important process of rebuilding our reserves. It would also impact our ability to preserve service levels in FY11 and FY12. Current assumptions in the balanced fiscal plan would limit expenditure growth to 1% in FY12. A further erosion in projected revenues would require even further reductions in planned expenditures in that budget.

The charts also indicate the projected savings that would result from relatively modest reductions in usage -- an additional goal of the energy tax. Such reductions in usage would serve to offset the tax even further for both residents and businesses. The attached analysis provides an estimate by each category of rate payer of a 2% reduction in electricity usage. I have also attached a matrix prepared by the Department of Environmental Protection that shows the existing programs supporting energy efficiency and renewable energy incentives for both residential and non residential utility customers.

#### Attachments

copies:

Timothy L. Firestine, Chief Administrative Officer  
Robert Hoyt, Director, Department of Environmental Protection  
Jennifer E. Barrett, Director, Department of Finance  
Joseph F. Beach, Director, Office of Management and Budget  
Kathleen Boucher, Assistant Chief Administrative Officer

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<sup>3</sup> This analysis is based on changes in Pepco's approved Schedule GS SOS rates for summer 2010 versus summer 2009. Other time of use based rates may apply to commercial customers.

## Assumptions

### Energy Tax

The energy tax is levied on all suppliers of electricity, natural gas, fuel oil, and other building fuels in the county. The Maryland Public Service Commission (PSC) authorizes that the tax be passed through the utility bill to the consumer. The tax is broken into two categories:

| Residential  | Non-Residential  |
|--|--|
| <ul style="list-style-type: none"><li>▪ Single family homes</li><li>▪ Individually Metered Apartments/Condos</li><li>▪ Agriculture</li></ul> | <ul style="list-style-type: none"><li>▪ Commercial</li><li>▪ Government (Fed, State, Local)</li><li>▪ Non-Profit</li><li>▪ Master Metered Multi-family</li></ul> |

The PSC also authorizes the utilities to include a small administrative fee for collecting the tax. For example, the fee charged residential accounts in 2010 equaled approximately 1.8% of the residential energy tax rate.

### Analysis of Standard Offer Service Rate Changes

Standard Offer Service (SOS) is the rate that utility service subscribers default to if they have not selected a competitive energy supplier. The rates for SOS, which includes generation charges, are established based on twice a year auctions in the wholesale energy market for energy supply. The energy tax with a sunset in 2012 will go through three cycles of updated SOS rates.

#### Residential:

This analysis compares the Pepco residential rate (Schedule R) for summer 2009 with summer 2010 (June 1 to September 30). It is assumed that reductions between winter 2009 and winter 2010 will be comparable. The analysis addresses only SOS and not the pricing from competitive energy suppliers. However, opportunities for rate reductions from these suppliers are anticipated to be similar.

#### Commercial:

Pepco has 14 different commercial rate categories. This analysis uses the General Service (Schedule GS) rate as a proxy for all commercial rates. However, the GS rate is the only option that is fixed per kilowatt-hour, as opposed to being variable based time of use. It is assumed that buildings on other rate schedules will have comparable opportunities to achieve similar savings as both are set on wholesale market factors.

#### Monthly Electricity Usage:

This analysis uses sample monthly electricity usage provided by Pepco for March from a variety of accounts. These figures are multiplied by 12 to estimate annual consumption. Actual annual consumption will vary due to fluctuations in electricity use through the year.

## **Reductions in Electricity Use**

This analysis shows the estimated savings associated with a reduction in electricity use of 2%. Entities may also use heating fuels such as natural gas or oil that are also taxed. Energy efficiency measures could also reduce the consequences of increased tax rates on these fuels, and well as increase in fuel costs.

The attached table provides information on energy efficiency and renewable energy incentives and credits that are available to residential and non-residential entities in Maryland from a variety of sources.

### Energy Tax Rate Calculator

| Energy Tax Revenue | FY10        |       | FY11        |       |             |       |             | FY11 Increase |             |      |
|--------------------|-------------|-------|-------------|-------|-------------|-------|-------------|---------------|-------------|------|
|                    | Revenue     | Split | Base        | Split | Additional  | Split | Total       | Split         | Revenue     | %    |
| Total              | 132,193,552 | 100%  | 135,120,000 | 100%  | 129,840,000 | 100%  | 264,960,000 | 100%          | 132,766,448 | 100% |
| Residential        | 36,005,559  | 27%   | 36,802,636  | 27%   | 35,364,522  | 27%   | 72,167,158  | 27%           | 36,161,599  | 100% |
| Non-Residential    | 96,187,993  | 73%   | 98,317,364  | 73%   | 94,475,478  | 73%   | 192,792,842 | 73%           | 96,604,849  | 100% |

| Sector          | Energy Tax Rates - Electricity |        |            |            | Pepco SOS Energy Rates (1) |           |             |
|-----------------|--------------------------------|--------|------------|------------|----------------------------|-----------|-------------|
|                 | FY10                           | % Chng | FY11       | Difference | 2009                       | 2010      | Difference  |
| Residential     | \$0.005224                     | 100%   | \$0.010470 | \$0.005246 | \$0.12787                  | \$0.11842 | (\$0.00945) |
| Non-Residential | \$0.013843                     | 100%   | \$0.027747 | \$0.013903 | \$0.12862                  | \$0.11833 | (\$0.01029) |

|                     | Monthly Elec. Use (kWh) (2) | Energy Tax  |           |            | Projected Cost of SOS Electricity |           |            | Elec. Bill Net Difference | Including a Reduction in Electricity Use of 2% |           |            |
|---------------------|-----------------------------|-------------|-----------|------------|-----------------------------------|-----------|------------|---------------------------|--|-----------|------------|
|                     |                             | FY10        | FY11      | Difference | FY10                              | FY11      | Difference |                           | FY10   | FY11      | Difference |
|                     |                             | Residential |           |            |                                   |           |            |                           |  |           |            |
| 7,105 Square Feet   | 1,868                       | 117         | 235       | 118        | 2,866                             | 2,655     | (212)      | (94)                      | 2,983  | 2,831     | (152)      |
| 1,428 Square Feet   | 3,370                       | 211         | 423       | 212        | 5,171                             | 4,789     | (382)      | (170)                     | 5,382  | 5,108     | (274)      |
| 789 Square Feet     | 258                         | 16          | 32        | 16         | 396                               | 367       | (29)       | (13)                      | 412  | 391       | (21)       |
| 6 Bedroom, 5 Bath   | 5,420                       | 340         | 681       | 341        | 8,317                             | 7,702     | (615)      | (273)                     | 8,656  | 8,215     | (441)      |
| 4 Bedroom, 3.5 Bath | 1,180                       | 74          | 148       | 74         | 1,811                             | 1,677     | (134)      | (60)                      | 1,885  | 1,789     | (96)       |
| 3,600 Square Feet   | 658                         | 41          | 83        | 41         | 1,010                             | 935       | (75)       | (33)                      | 1,051  | 997       | (54)       |
| Non-Residential     |                             |             |           |            |                                   |           |            |                           |  |           |            |
| Coffee in Rockville | 8,118                       | 1,349       | 2,703     | 1,354      | 12,530                            | 11,527    | (1,002)    | 352                       | 13,878   | 13,946    | 67         |
| Restaurant          | 28,640                      | 4,758       | 9,536     | 4,778      | 44,204                            | 40,668    | (3,536)    | 1,242                     | 48,962   | 49,200    | 238        |
| Ice Cream Parlor    | 9,960                       | 1,655       | 3,316     | 1,662      | 15,373                            | 14,143    | (1,230)    | 432                       | 17,027   | 17,110    | 83         |
| Hotel               | 392,488                     | 65,200      | 130,682   | 65,482     | 605,782                           | 557,317   | (48,464)   | 17,018                    | 670,981  | 674,239   | 3,258      |
| Grocery Store       | 232,721                     | 38,659      | 77,486    | 38,827     | 359,191                           | 330,455   | (28,736)   | 10,091                    | 397,850  | 399,782   | 1,932      |
| Florist             | 1,584                       | 263         | 527       | 264        | 2,445                             | 2,249     | (196)      | 69                        | 2,708  | 2,721     | 13         |
| Non-profit          | 129,920                     | 21,582      | 43,258    | 21,676     | 200,524                           | 184,481   | (16,043)   | 5,633                     | 222,106  | 223,184   | 1,078      |
| Office Building     | 365,876                     | 60,779      | 121,821   | 61,042     | 564,708                           | 519,529   | (45,178)   | 15,864                    | 625,487  | 628,524   | 3,037      |
| Biotech Company     | 5,112,805                   | 849,335     | 1,702,350 | 853,016    | 7,891,308                         | 7,259,979 | (631,329)  | 221,686                   | 8,740,642                                      | 8,783,082 | 42,440     |

(1) Pepco Standard Offer Service (SOS) rates for residential customers (Schedule R) and commercial customers (Schedule GS).

(2) Electricity use provided by Pepco in April 20, 2010 written testimony.

### Energy Tax Rate Calculator

| Energy Tax Revenue | FY10        |       | FY11        |       |             |       |             | FY11 Increase |             |      |
|--------------------|-------------|-------|-------------|-------|-------------|-------|-------------|---------------|-------------|------|
|                    | Revenue     | Split | Base        | Split | Additional  | Split | Total       | Split         | Revenue     | %    |
| Total              | 132,193,552 | 100%  | 135,120,000 | 100%  | 129,840,000 | 100%  | 264,960,000 | 100%          | 132,766,448 | 100% |
| Residential        | 36,005,559  | 27%   | 36,802,636  | 27%   | 44,145,600  | 34%   | 80,948,236  | 31%           | 44,942,677  | 125% |
| Non-Residential    | 96,187,993  | 73%   | 98,317,364  | 73%   | 85,694,400  | 66%   | 184,011,764 | 69%           | 87,823,772  | 91%  |

| Sector          | Energy Tax Rates - Electricity |        |            |            | Pepco SOS Energy Rates (1) |           |             |
|-----------------|--------------------------------|--------|------------|------------|----------------------------|-----------|-------------|
|                 | FY10                           | % Chng | FY11       | Difference | 2009                       | 2010      | Difference  |
| Residential     | \$0.005224                     | 125%   | \$0.011744 | \$0.006520 | \$0.12787                  | \$0.11842 | (\$0.00945) |
| Non-Residential | \$0.013843                     | 91%    | \$0.026483 | \$0.012639 | \$0.12862                  | \$0.11833 | (\$0.01029) |

|                        | Monthly Elec. Use (kWh) (2) | Energy Tax |           |            | Projected Cost of SOS Electricity |           |            | Elec. Bill Net Difference | Including a Reduction in Electricity Use of 2% |           |            |
|------------------------|-----------------------------|------------|-----------|------------|-----------------------------------|-----------|------------|---------------------------|--|-----------|------------|
|                        |                             | FY10       | FY11      | Difference | FY10                              | FY11      | Difference |                           | FY10   | FY11      | Difference |
| <b>Residential</b>     |                             |            |           |            |                                   |           |            |                           |  |           |            |
| 7,105 Square Feet      | 1,868                       | 117        | 263       | 146        | 2,866                             | 2,655     | (212)      | (66)                      | 2,983  | 2,859     | (124)      |
| 1,428 Square Feet      | 3,370                       | 211        | 475       | 264        | 5,171                             | 4,789     | (382)      | (118)                     | 5,382  | 5,159     | (224)      |
| 789 Square Feet        | 258                         | 16         | 36        | 20         | 396                               | 367       | (29)       | (9)                       | 412  | 395       | (17)       |
| 6 Bedroom, 5 Bath      | 5,420                       | 340        | 764       | 424        | 8,317                             | 7,702     | (615)      | (191)                     | 8,656  | 8,297     | (360)      |
| 4 Bedroom, 3.5 Bath    | 1,180                       | 74         | 166       | 92         | 1,811                             | 1,677     | (134)      | (41)                      | 1,885  | 1,806     | (78)       |
| 3,600 Square Feet      | 658                         | 41         | 93        | 51         | 1,010                             | 935       | (75)       | (23)                      | 1,051  | 1,007     | (44)       |
| <b>Non-Residential</b> |                             |            |           |            |                                   |           |            |                           |  |           |            |
| Coffee in Rockville    | 8,118                       | 1,349      | 2,580     | 1,231      | 12,530                            | 11,527    | (1,002)    | 229                       | 13,878   | 13,825    | (53)       |
| Restaurant             | 28,640                      | 4,758      | 9,102     | 4,344      | 44,204                            | 40,668    | (3,536)    | 807                       | 48,962   | 48,774    | (188)      |
| Ice Cream Parlor       | 9,960                       | 1,655      | 3,165     | 1,511      | 15,373                            | 14,143    | (1,230)    | 281                       | 17,027   | 16,962    | (65)       |
| Hotel                  | 392,488                     | 65,200     | 124,730   | 59,530     | 605,782                           | 557,317   | (48,464)   | 11,066                    | 670,981  | 668,406   | (2,575)    |
| Grocery Store          | 232,721                     | 38,659     | 73,957    | 35,298     | 359,191                           | 330,455   | (28,736)   | 6,561                     | 397,850  | 396,323   | (1,527)    |
| Florist                | 1,584                       | 263        | 503       | 240        | 2,445                             | 2,249     | (196)      | 45                        | 2,708  | 2,698     | (10)       |
| Non-profit             | 129,920                     | 21,582     | 41,288    | 19,705     | 200,524                           | 184,481   | (16,043)   | 3,663                     | 222,106  | 221,253   | (852)      |
| Office Building        | 365,876                     | 60,779     | 116,273   | 55,494     | 564,708                           | 519,529   | (45,178)   | 10,315                    | 625,487  | 623,086   | (2,401)    |
| Biotech Company        | 5,112,805                   | 849,335    | 1,624,814 | 775,479    | 7,891,308                         | 7,259,979 | (631,329)  | 144,150                   | 8,740,642                                      | 8,707,097 | (33,546)   |

(1) Pepco Standard Offer Service (SOS) rates for residential customers (Schedule R) and commercial customers (Schedule GS).

(2) Electricity use provided by Pepco in April 20, 2010 written testimony.

### Energy Tax Rate Calculator

| Energy Tax Revenue | FY10        |       | FY11        |       |             |       |             | FY11 Increase |             |      |
|--------------------|-------------|-------|-------------|-------|-------------|-------|-------------|---------------|-------------|------|
|                    | Revenue     | Split | Base        | Split | Additional  | Split | Total       | Split         | Revenue     | %    |
| Total              | 132,193,552 | 100%  | 135,120,000 | 100%  | 129,840,000 | 100%  | 264,960,000 | 100%          | 132,766,448 | 100% |
| Residential        | 36,005,559  | 27%   | 36,802,636  | 27%   | 51,936,000  | 40%   | 88,738,636  | 33%           | 52,733,077  | 146% |
| Non-Residential    | 96,187,993  | 73%   | 98,317,364  | 73%   | 77,904,000  | 60%   | 176,221,364 | 67%           | 80,033,372  | 83%  |

| Sector          | Energy Tax Rates - Electricity |        |            |            | Pepco SOS Energy Rates (1) |           |             |
|-----------------|--------------------------------|--------|------------|------------|----------------------------|-----------|-------------|
|                 | FY10                           | % Chng | FY11       | Difference | 2009                       | 2010      | Difference  |
| Residential     | \$0.005224                     | 146%   | \$0.012874 | \$0.007651 | \$0.12787                  | \$0.11842 | (\$0.00945) |
| Non-Residential | \$0.013843                     | 83%    | \$0.025362 | \$0.011518 | \$0.12862                  | \$0.11833 | (\$0.01029) |

|                        | Monthly Elec. Use (kWh) (2) | Energy Tax |           |            | Projected Cost of SOS Electricity |           |            | Elec. Bill Net Difference | Including a Reduction in Electricity Use of 2% |           |            |
|------------------------|-----------------------------|------------|-----------|------------|-----------------------------------|-----------|------------|---------------------------|--|-----------|------------|
|                        |                             | FY10       | FY11      | Difference | FY10                              | FY11      | Difference |                           | FY10   | FY11      | Difference |
| <b>Residential</b>     |                             |            |           |            |                                   |           |            |                           |  |           |            |
| 7,105 Square Feet      | 1,868                       | 117        | 289       | 171        | 2,866                             | 2,655     | (212)      | (40)                      | 2,983  | 2,884     | (99)       |
| 1,428 Square Feet      | 3,370                       | 211        | 521       | 309        | 5,171                             | 4,789     | (382)      | (73)                      | 5,382  | 5,203     | (179)      |
| 789 Square Feet        | 258                         | 16         | 40        | 24         | 396                               | 367       | (29)       | (6)                       | 412  | 398       | (14)       |
| 6 Bedroom, 5 Bath      | 5,420                       | 340        | 837       | 498        | 8,317                             | 7,702     | (615)      | (117)                     | 8,656  | 8,369     | (288)      |
| 4 Bedroom, 3.5 Bath    | 1,180                       | 74         | 182       | 108        | 1,811                             | 1,677     | (134)      | (25)                      | 1,885  | 1,822     | (63)       |
| 3,600 Square Feet      | 658                         | 41         | 102       | 60         | 1,010                             | 935       | (75)       | (14)                      | 1,051  | 1,016     | (35)       |
| <b>Non-Residential</b> |                             |            |           |            |                                   |           |            |                           |  |           |            |
| Coffee in Rockville    | 8,118                       | 1,349      | 2,471     | 1,122      | 12,530                            | 11,527    | (1,002)    | 120                       | 13,878   | 13,718    | (160)      |
| Restaurant             | 28,640                      | 4,758      | 8,716     | 3,959      | 44,204                            | 40,668    | (3,536)    | 422                       | 48,962   | 48,396    | (566)      |
| Ice Cream Parlor       | 9,960                       | 1,655      | 3,031     | 1,377      | 15,373                            | 14,143    | (1,230)    | 147                       | 17,027   | 16,831    | (197)      |
| Hotel                  | 392,488                     | 65,200     | 119,449   | 54,250     | 605,782                           | 557,317   | (48,464)   | 5,785                     | 670,981  | 663,231   | (7,750)    |
| Grocery Store          | 232,721                     | 38,659     | 70,826    | 32,167     | 359,191                           | 330,455   | (28,736)   | 3,430                     | 397,850  | 393,255   | (4,595)    |
| Florist                | 1,584                       | 263        | 482       | 219        | 2,445                             | 2,249     | (196)      | 23                        | 2,708  | 2,677     | (31)       |
| Non-profit             | 129,920                     | 21,582     | 39,540    | 17,958     | 200,524                           | 184,481   | (16,043)   | 1,915                     | 222,106  | 219,540   | (2,565)    |
| Office Building        | 365,876                     | 60,779     | 111,350   | 50,571     | 564,708                           | 519,529   | (45,178)   | 5,393                     | 625,487  | 618,262   | (7,225)    |
| Biotech Company        | 5,112,805                   | 849,335    | 1,556,025 | 706,690    | 7,891,308                         | 7,259,979 | (631,329)  | 75,361                    | 8,740,642                                      | 8,639,684 | (100,959)  |

(1) Pepco Standard Offer Service (SOS) rates for residential customers (Schedule R) and commercial customers (Schedule GS).

(2) Electricity use provided by Pepco in April 20, 2010 written testimony.

# Selected Energy-Efficiency and Renewable Energy Incentives

5/4/2010

|                            | Residential   | Non-Residential  |
|----------------------------|---|--|
| <i>Pepco (Utility)</i>     | <ul style="list-style-type: none"> <li>▪ <i>Energy Wise Programmable Thermostat/Cycling Program</i> – Up to \$160 annual savings for cycling A/C.</li> <li>▪ <i>Lighting Program</i> – Up to \$1.50 off a single or \$3.00 off a multi-pack of compact fluorescent lamps (CFL). Savings potential up to \$10/year per lamp.</li> <li>▪ <i>Pepco Appliance Program</i> – Up to \$300 per household for the purchase of energy-efficient appliances.</li> <li>▪ <i>Home Energy-Efficiency Programs</i> - \$100 full home energy audit, enhanced incentives for efficiency improvements resulting from the audit.</li> <li>▪ <i>HVAC Efficiency Program</i> – Up to \$200 for heat pumps and up to \$300 for A/C replacement. Up to \$100 for a tune-up.</li> <li>▪ <i>Income Eligible Program</i> – Complete energy audit and retrofits for income eligible consumers.</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Up to \$250,000 per account or \$500,000 for multi-account holders for energy-efficiency improvements to commercial properties.</li> <li>▪ Prescriptive incentives for high-efficiency lighting, HVAC, vending machine controls, and motors.</li> <li>▪ Custom incentives available for qualifying projects.</li> </ul>   |
| <i>BG&amp;E (Utility)</i>  | <ul style="list-style-type: none"> <li>▪ <i>Peak Rewards</i> – Up to \$100 and a programmable thermostat for cycling of A/C.</li> <li>▪ <i>Lighting Program</i> – Up to \$2.50 per CFL or \$10 per fixture for compact fluorescent or energy-efficient lighting.</li> <li>▪ <i>Appliance Program</i> – <ul style="list-style-type: none"> <li>▪ Up to \$100 per energy-efficient refrigerator.</li> <li>▪ Up to \$150 for energy-efficient electric water heaters, or \$300 for heat pump water heaters.</li> <li>▪ Up to \$25 for energy-efficient window air-conditioners.</li> <li>▪ \$50 bonus for recycling of old refrigerator.</li> </ul> </li> <li>▪ <i>Home Performance with ENERGY STAR Program</i> - Approximately \$1,200 in incentives for improvements identified in a comprehensive audit report.</li> <li>▪ <i>Heating and Cooling</i> – (ala carte) \$75 for system tune-ups, \$200 for duct sealing, up to \$400 for high-efficiency equipment, up to \$200 for efficiency equipment that meet high quality installation standards.</li> <li>▪ <i>Income Eligible Program</i> – Complete energy audit and retrofits for income eligible consumers.</li> </ul> | <ul style="list-style-type: none"> <li>▪ <i>Small Business Lighting Solutions</i> – Up to 80% of the cost of qualified lighting improvements.</li> <li>▪ <i>Business Energy Solutions</i> – Up to 50% of retrofit costs for qualifying energy-efficiency retrofits and 75% of the incremental cost for new construction.</li> </ul>  |
| <i>Allegheny (Utility)</i> | <ul style="list-style-type: none"> <li>▪ <i>Lighting Program</i> - Up to \$1.50 off a single or \$3.00 off a multi-pack of CFLs.</li> <li>▪ <i>Appliance Program</i> – Rebates for energy-efficient appliances. <ul style="list-style-type: none"> <li>▪ \$25 for energy-efficient dishwashers or clothes dryers with moisture sensors, room air-conditioners, or programmable thermostats.</li> <li>▪ \$75 for energy-efficient clothes washers.</li> </ul> </li> </ul>  | <ul style="list-style-type: none"> <li>▪ <i>Lighting Energy-Efficiency</i> – \$15 to \$25 per energy-efficient lighting fixture or exit sign.</li> <li>▪ \$40 per ton of efficient AC or \$80 per ton of efficiency heat pump.</li> <li>▪ Up to 50% of the cost of variable frequency drives, efficient motors controllers common on HVAC systems.</li> <li>▪ For projects that can save greater than 250,000 kWh per</li> </ul> |

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|                                       |  |   |
|---------------------------------------|--|---|
|                                       | <ul style="list-style-type: none"> <li>▪ \$50 on refrigerators or \$25 on freezers.</li> <li>▪ \$200 on energy-efficiency A/C or heat pumps</li> <li>▪ Home Performance with ENERGY STAR – Providing a subsidized \$180 comprehensive audit and up to \$1,000 in incentives for insulation and air-sealing recommended by the audit.</li> </ul>  | <p>year, up to \$250,000 or 50% of project cost can be awarded. (\$2,000,000 Maryland cap)</p>  |
| <b>Maryland Energy Administration</b> | <ul style="list-style-type: none"> <li>▪ <i>Geothermal Heat pump Grants</i> - Up to \$3,00 for Geothermal Heat pump Installations</li> <li>▪ <i>Solar Grants</i> - Up to \$10,000 for solar photovoltaic systems or up to \$2,000 for solar water heating.</li> <li>▪ <i>EmPower Communities Grants</i> – Bi-annual competitive grant program for low-moderate income energy-efficiency improvements operated by non-profits and local governments.</li> </ul>   | <ul style="list-style-type: none"> <li>▪ <i>Geothermal Heat pump Grants</i> - Up to \$10,000 for Geothermal Heat pump Installations</li> <li>▪ <i>Farm Energy Program</i> – Incentives for agricultural upgrades <ul style="list-style-type: none"> <li>▪ Subsidized energy audit \$300</li> <li>▪ Up to \$0.08/kWh or \$1.50 gallon propane per estimated electricity savings.</li> </ul> </li> <li>▪ <i>Solar Grants</i> - Up to \$10,000 for solar photovoltaic systems, up to \$2,000 for solar water heating.</li> <li>▪ Pay for up to 50% of energy assessment costs for for-profit organizations and 75% of the costs for not-for-profit organizations through the Maryland Technology Extension Service.</li> </ul> |
| <b>Federal</b>                        | <ul style="list-style-type: none"> <li>▪ Tax credit equal to 30% of the cost or up to \$1,500 per home for building envelope, heating and cooling system improvements.</li> <li>▪ Tax credit equal to 30% of the cost of solar, geothermal or wind energy systems.</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Up to \$1.80 per square foot tax deduction for new or existing buildings that achieve prescribed values for energy-efficiency.</li> <li>▪ Tax credit equal to 30% of the total cost of a solar energy system.</li> <li>▪ Tax credit equal to 10% of a geothermal system.</li> </ul>  |
| <b>Montgomery County</b>              | <ul style="list-style-type: none"> <li>▪ <i>Home Energy Loan Program (HELP)</i> – Up to \$25,000 in financing for cost-effective energy-efficiency improvements identified in a qualifying audit report. Renewable energy installations where cost-effective or in concert with energy-efficiency.</li> <li>▪ <i>EE/RE Property Tax Credit</i> – Up to \$250 annually for energy-efficiency improvements or up to \$5,000 for solar or geothermal installations (oversubscribed for FY10 as of 5/2010).</li> </ul> | <ul style="list-style-type: none"> <li>▪ <i>Commercial/Multi-Family Grant Program</i> – Up to \$75,000 or 25 to 50% of project costs competitively awarded for up to 50 projects.</li> </ul>  |

### Energy Tax Rate Calculator

| Energy Tax Revenue | FY10        |       | FY11        |       |             |       |             | FY11 Increase |             |      |
|--------------------|-------------|-------|-------------|-------|-------------|-------|-------------|---------------|-------------|------|
|                    | Revenue     | Split | Base        | Split | Additional  | Split | Total       | Split         | Revenue     | %    |
| Total              | 132,193,552 | 100%  | 135,120,000 | 100%  | 129,840,000 | 100%  | 264,960,000 | 100%          | 132,766,448 | 100% |
| Residential        | 36,005,559  | 27%   | 36,802,636  | 27%   | 64,920,000  | 50%   | 101,722,636 | 38%           | 65,717,077  | 183% |
| Non-Residential    | 96,187,993  | 73%   | 98,317,364  | 73%   | 64,920,000  | 50%   | 163,237,364 | 62%           | 67,049,372  | 70%  |

| Sector          | Energy Tax Rates - Electricity |        |            |            | Pepco SOS Energy Rates (1) |           |             |
|-----------------|--------------------------------|--------|------------|------------|----------------------------|-----------|-------------|
|                 | FY10                           | % Chng | FY11       | Difference | 2009                       | 2010      | Difference  |
| Residential     | \$0.005224                     | 183%   | \$0.014758 | \$0.009534 | \$0.12787                  | \$0.11842 | (\$0.00945) |
| Non-Residential | \$0.013843                     | 70%    | \$0.023493 | \$0.009650 | \$0.12862                  | \$0.11833 | (\$0.01029) |

|                     | Monthly Elec. Use (kWh) (2) | Annual Energy Tax |           |            | Projected Cost of SOS Electricity |           |            | Elec. Bill Net Difference | Including a Reduction in Electricity Use of 2% |           |            |
|---------------------|-----------------------------|-------------------|-----------|------------|-----------------------------------|-----------|------------|---------------------------|--|-----------|------------|
|                     |                             | FY10              | FY11      | Difference | FY10                              | FY11      | Difference |                           | FY10   | FY11      | Difference |
|                     |                             | Residential       |           |            |                                   |           |            |                           |  |           |            |
| 7,105 Square Feet   | 1,868                       | 117               | 331       | 214        | 2,866                             | 2,655     | (212)      | 2                         | 2,983  | 2,926     | (58)       |
| 1,428 Square Feet   | 3,370                       | 211               | 597       | 386        | 5,171                             | 4,789     | (382)      | 3                         | 5,382  | 5,278     | (104)      |
| 789 Square Feet     | 258                         | 16                | 46        | 30         | 396                               | 367       | (29)       | 0                         | 412  | 404       | (8)        |
| 6 Bedroom, 5 Bath   | 5,420                       | 340               | 960       | 620        | 8,317                             | 7,702     | (615)      | 5                         | 8,656  | 8,489     | (168)      |
| 4 Bedroom, 3.5 Bath | 1,180                       | 74                | 209       | 135        | 1,811                             | 1,677     | (134)      | 1                         | 1,885  | 1,848     | (37)       |
| 3,600 Square Feet   | 658                         | 41                | 117       | 75         | 1,010                             | 935       | (75)       | 1                         | 1,051  | 1,031     | (20)       |
| Non-Residential     |                             |                   |           |            |                                   |           |            |                           |  |           |            |
| Coffee in Rockville | 8,118                       | 1,349             | 2,289     | 940        | 12,530                            | 11,527    | (1,002)    | (62)                      | 13,878   | 13,540    | (339)      |
| Restaurant          | 28,640                      | 4,758             | 8,074     | 3,316      | 44,204                            | 40,668    | (3,536)    | (220)                     | 48,962   | 47,767    | (1,195)    |
| Ice Cream Parlor    | 9,960                       | 1,655             | 2,808     | 1,153      | 15,373                            | 14,143    | (1,230)    | (77)                      | 17,027   | 16,612    | (416)      |
| Hotel               | 392,488                     | 65,200            | 110,648   | 45,449     | 605,782                           | 557,317   | (48,464)   | (3,016)                   | 670,981  | 654,606   | (16,375)   |
| Grocery Store       | 232,721                     | 38,659            | 65,608    | 26,948     | 359,191                           | 330,455   | (28,736)   | (1,788)                   | 397,850  | 388,141   | (9,709)    |
| Florist             | 1,584                       | 263               | 447       | 183        | 2,445                             | 2,249     | (196)      | (12)                      | 2,708  | 2,642     | (66)       |
| Non-profit          | 129,920                     | 21,582            | 36,626    | 15,044     | 200,524                           | 184,481   | (16,043)   | (998)                     | 222,106  | 216,685   | (5,420)    |
| Office Building     | 365,876                     | 60,779            | 103,146   | 42,367     | 564,708                           | 519,529   | (45,178)   | (2,811)                   | 625,487  | 610,222   | (15,265)   |
| Biotech Company     | 5,112,805                   | 849,335           | 1,441,377 | 592,042    | 7,891,308                         | 7,259,979 | (631,329)  | (39,287)                  | 8,740,642                                      | 8,527,329 | (213,314)  |

(1) Pepco Standard Offer Service (SOS) rates for Summer 2009 versus Summer 2010 for residential customers (Schedule R) and commercial customers (Schedule GS).

(2) Electricity use provided by Pepco in April 20, 2010 written testimony.

### Energy Tax Rate Calculator

|  | Monthly Elec. Use (kWh) (2) | Annual Energy Tax |        |            | Annual Projected Cost of SOS Electricity (1) |         |            | Elec. Bill Net Difference | Including a Reduction in Electricity Use of 2% |         |            |
|--|-----------------------------|-------------------|--------|------------|--|---------|------------|---------------------------|--|---------|------------|
|  |                             | FY10              | FY11   | Difference | FY10   | FY11    | Difference |                           | FY10   | FY11    | Difference |
| <b>Residential (4 Bed., 3.5 Bath)</b>  |                             |                   |        |            |  |         |            |                           |  |         |            |
| 27% R - 73% NR                         | 1,180                       | 74                | 148    | 74         | 1,811  | 1,677   | (134)      | (60)                      | 1,885  | 1,789   | (96)       |
| 34% R - 66% NR                         | 1,180                       | 74                | 166    | 92         | 1,811  | 1,677   | (134)      | (41)                      | 1,885  | 1,806   | (78)       |
| 40% R - 60% NR                         | 1,180                       | 74                | 182    | 108        | 1,811  | 1,677   | (134)      | (25)                      | 1,885  | 1,822   | (63)       |
| 50% R - 50% NR                         | 1,180                       | 74                | 209    | 135        | 1,811  | 1,677   | (134)      | 1                         | 1,885  | 1,848   | (37)       |
| <b>Non-Residential (Grocery Store)</b> |                             |                   |        |            |  |         |            |                           |  |         |            |
| 27% R - 73% NR                         | 232,721                     | 38,659            | 77,486 | 38,827     | 359,191                                      | 330,455 | (28,736)   | 10,091                    | 397,850  | 399,782 | 1,932      |
| 34% R - 66% NR                         | 232,721                     | 38,659            | 73,957 | 35,298     | 359,191                                      | 330,455 | (28,736)   | 6,561                     | 397,850  | 396,323 | (1,527)    |
| 40% R - 60% NR                         | 232,721                     | 38,659            | 70,826 | 32,167     | 359,191                                      | 330,455 | (28,736)   | 3,430                     | 397,850  | 393,255 | (4,595)    |
| 50% R - 50% NR                         | 232,721                     | 38,659            | 65,608 | 26,948     | 359,191                                      | 330,455 | (28,736)   | (1,788)                   | 397,850  | 388,141 | (9,709)    |

(1) Pepco Standard Offer Service (SOS) rates for Summer 2009 versus Summer 2010 for residential customers (Schedule R) and commercial customers (Schedule GS).

(2) Electricity use provided by Pepco in April 20, 2010 written testimony.

### Effect of Shifting Master Metered Properties to Residential Energy Tax Rate

| Split          | Impact on Individual Units  |                                 |     |                             |     | Impact on Projected Revenue |                 |                         |                    |             |
|----------------|-----------------------------|---------------------------------|-----|-----------------------------|-----|-----------------------------|-----------------|-------------------------|--------------------|-------------|
|                | Monthly Elec. Use (kWh) (1) | If Charged Non-Residential Rate |     | If Charged Residential Rate |     | Difference                  | Total Units (2) | Revenue if Charged Non- | Revenue if Charged | Difference  |
|                |                             | Tax Rate                        | Tax | Tax Rate                    | Tax |                             |                 | Res Rate                | Res Rate           |             |
| 27% R - 73% NR | 500                         | \$0.0277465                     | 166 | \$0.0104702                 | 63  | (104)                       | 12,529          | 2,085,817               | 787,089            | (1,298,727) |
| 34% R - 66% NR | 500                         | \$0.0264828                     | 159 | \$0.0117442                 | 70  | (88)                        | 12,529          | 1,990,815               | 882,860            | (1,107,955) |
| 40% R - 60% NR | 500                         | \$0.0253616                     | 152 | \$0.0128745                 | 77  | (75)                        | 12,529          | 1,906,531               | 967,826            | (938,705)   |
| 50% R - 50% NR | 500                         | \$0.0234929                     | 141 | \$0.0147582                 | 89  | (52)                        | 12,529          | 1,766,057               | 1,109,435          | (656,622)   |

**Notes**

1. 500 kWh/month based on 50% of the average single-family home energy consumption.
2. Master metered housing units include all high-rise and low-rise units in the County built before 1978; as supplied by the Department of Finance.

# Electricity distribution rates to rise

■ But falling fuel costs could offset much of the hike for billing

BY SEAN R. SEDAM  
STAFF WRITER

Some electricity customers in Montgomery County could see increases to their bills in the coming months as utilities seek to keep up with the cost of distributing power.

Baltimore Gas and Electric filed a request Friday with the Maryland Public Service Commission to increase distribution rates for the first time in 17 years.

BGE has 12,500 residential electricity customers in Montgomery County, part of 1.1 million residential electricity customers across eight central Maryland counties and Baltimore city.

The proposed rate hike would increase BGE electric bills by an average of 1.3 percent.

For a typical residential electric customer using about 1,000 kilowatt-hours per month, the increase amounts to \$1.84 per month, according to BGE's filing.

The increase must be approved by the PSC before it can take effect, likely by the end of the year. BGE estimates that it needs to raise \$110.8 million to cover distribution costs, but a March 2008 agreement with the state restricts the amount of distribution revenue it can raise to \$46.9 million.

The request comes as falling commodity prices are expected to yield what the BGE filing described as "substantial decreases" into mid-2011.

"These decreases will offset the distribution increase and lead to net reductions in customers' total electric bills," a BGE attorney wrote in the filing. Even with the requested distribution rate increase, the average electricity bill would see a net decrease of 7.1 percent, according to BGE.

Pepco customers could see a 2.5 percent increase in

distribution rates beginning in July, under a request filed by the utility late last year. The average monthly bill would grow by \$3.76 — from \$151.78 to \$155.54 — for standard-offer service customers who use 1,000 kilowatt-hours per month.

But that increase also could be partially offset by a 2.2 percent decrease in standard-offer service rates that take effect June 1. The decrease, the result of competitive bids, will reduce average monthly bills by \$3.37, giving ratepayers a net 39 cent increase.

The PSC historically gives utilities less than they request, meaning the rate increase could be even smaller.

Pepco purchases electricity at auction from a variety of energy sources, including coal, oil, natural gas and renewable energy.

"Prices of commodities, fossil fuels, have been dropping," said Pepco spokesman Clay Anderson. The PSC requires that utilities pass along savings to customers.

Pepco distributes electricity to 518,000 residential and commercial customers in Montgomery and Prince George's counties.

Because Pepco only distributes, and does not generate, electricity, the utility "can only ask for increases through distribution rates," Anderson said. Distribution rates make up one-quarter of a monthly bill.

The distribution rate increase, Pepco's third in 12 years, would raise about \$40 million that would go toward "keeping the system reliable," Anderson said. "We're talking about maintaining the poles and the wires and maintaining the basic infrastructure."

Allegheny Power, which has 220,000 Maryland customers, including 25,500 in Montgomery County, is seeking a 1 percent decrease in rates, beginning June 1.

Customers saw a 0.7 percent rate credit in January, which decreased average monthly bills from \$104.30 to \$103.53, said Allegheny Power spokesman Todd Meyers.

The company has not had a distribution rate increase since 1994, Meyers said.



A PHI Company

701 Ninth Street, NW  
Washington, DC 20068

Charles L. Washington, Jr.  
Manager  
Government Affairs

202 872-2132 Phone  
202 872-2032 Fax

April 20, 2010

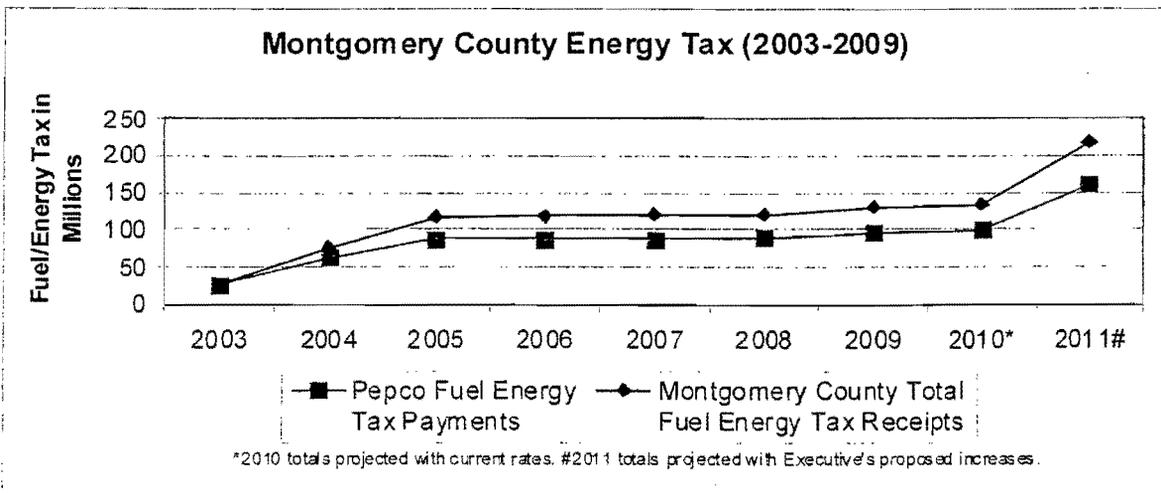
The Honorable Nancy Floreen  
President, Montgomery County Council  
100 Maryland Avenue  
Rockville, MD 20850

**Re: Expedited Bill 15-17 – Taxation – Fuel/Energy**

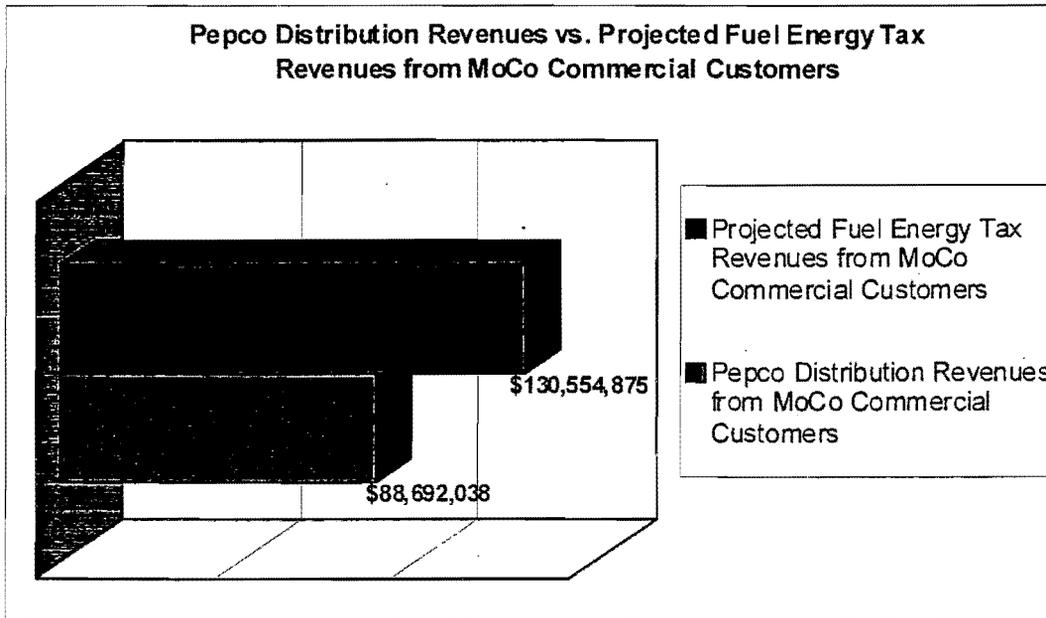
Dear Council President Floreen,

Good evening. My name is Charles Washington and I am the Public Affairs Manager for Pepco. Pepco appreciates the opportunity to comment on the proposed Fuel/Energy tax currently before you. Pepco, a subsidiary of Pepco Holdings, Inc., provides safe and reliable electric service to 767,000 residential and commercial customers in Washington, D.C., and its Maryland suburbs, including Montgomery County.

As the electric distributor for the majority of Montgomery County, Pepco is concerned about the proposed increase in the county's Fuel/Energy tax. In 2003, this tax on electricity, natural gas, oil, coal and other fuels raised \$26 million. In 2011, the county's annual Fuel/Energy tax revenues would increase to nearly \$217 million if this proposal is approved. That is a 731% increase in only 8 years.



The County's Fuel/Energy increases since 2003 have always disproportionately impacted commercial customers. However, this proposed increase crosses a notable threshold. Pepco, a distribution company, collects approximately \$88.6 million in distribution revenues from commercial customers in Montgomery County. As illustrated below, if the County Executive's proposal is approved, the County would collect over \$130 million from those same customers. In essence, the County will be collecting more from the energy tax than Pepco collects as a power delivery company to maintain and operate our electric system.



As demonstrated below using actual randomly selected commercial accounts, this increase will have a real impact on County businesses. One restaurant in Silver Spring will see an increase of over \$3,000 a year. A hotel in Bethesda will see a tax increase of approximately \$41,000 a year. The County's successful Biotech companies will see increases of hundreds of thousands of dollars of year, with at least one projected to see an increase of over half a million dollars.

| Business                       | KWH     | Old Tax      | New Tax        | Difference   |
|--------------------------------|---------|--------------|----------------|--------------|
| Apartment Building in Bethesda | 194347  | \$32,284.76  | \$52,850.14    | \$20,565.39  |
| Coffee in Rockville            | 8118    | \$1,348.56   | \$2,207.58     | \$859.03     |
| Restaurant Silver Spring       | 28640   | \$4,757.65   | \$7,788.28     | \$3,030.62   |
| Ice cream parlor in Germantown | 9960    | \$1,654.55   | \$2,708.49     | \$1,053.95   |
| Hotel in Bethesda              | 392488  | \$65,199.77  | \$106,732.02   | \$41,532.25  |
| Grocery Store in Silver Spring | 232721  | \$38,659.41  | \$63,285.46    | \$24,626.04  |
| Florist in Takoma Park         | 1584    | \$263.13     | \$430.75       | \$167.62     |
| Non profit serving children    | 129920  | \$21,582.20  | \$35,330.06    | \$13,747.86  |
| Office Building in Rockville   | 365876  | \$60,779.00  | \$99,495.23    | \$38,716.23  |
| Biotech Company                | 5112805 | \$849,334.74 | \$1,390,360.97 | \$541,026.23 |

It is important to note that the proposed increase on commercial customers will almost certainly have an impact on County residents as well. In compliance with the applicable laws and regulations, Pepco charges apartment buildings and condominiums that are master-metered the non-residential Fuel/Energy tax rate. Upon the expiration of their leases, property management companies will pass the Fuel/Energy tax increase through to renters. Renters in these master-metered facilities will be harder hit than other County residents. As indicated below using randomly selected actual Pepco accounts, where a typical, individually metered residential customer who uses 1000 KWH a month would see a tax increase of \$40 a year; a similar resident in a master-metered building would be responsible for \$106 a year.

| Typical Homes                             | KWH  | Old Tax  | New Tax  | Difference |
|---|------|----------|----------|------------|
| 7,150 SQF Home in Potomac, MD             | 1868 | \$117.10 | \$191.69 | \$74.59    |
| 1,428 SQF Town Home in Silver Spring      | 3370 | \$211.25 | \$345.82 | \$134.57   |
| 789 SQF Apartment in Bethesda             | 258  | \$16.17  | \$26.47  | \$10.30    |
| 6 bedroom, 5 bath Home in Germantown, MD  | 5420 | \$339.76 | \$556.18 | \$216.42   |
| 4 bedroom, 3.5 bath Home in Rockville, MD | 1180 | \$73.97  | \$121.09 | \$47.12    |
| 3,600 SQF Home in Gaithersburg, MD        | 650  | \$40.75  | \$66.70  | \$25.95    |

Pepco and its customers would be responsible for approximately 74% of the revenues from this tax, or \$160.4 million. This comes at a time when Pepco's customers are experiencing unprecedented financial difficulties. More than 48,600 Pepco customers are currently in arrears for over \$19 million. Many disconnected accounts are never settled and must be written-off. In the first quarter of 2010, Pepco wrote-off over 2,700 Montgomery County accounts, valued at \$1.6 million. This bad debt must then be added to Pepco's Maryland rate base – resulting in higher rates for all Maryland customers, including those in Montgomery County.

This tax also puts Pepco's Maryland customers at risk because the company pays the tax on quarterly usage, even if it cannot collect the tax along with other portions of the bill. The risk to customers would be somewhat mitigated if Pepco remits the tax to the County as a pure pass-through, paying only what we actually collect.

Pepco recognizes that, if approved, our customers will be hit hard by the proposed tax increase. We are working with our customers to mitigate the challenges of the tough economic times by offering budget billing plans that allow customers to manage their energy costs. In recent weeks, Pepco announced additional programs to encourage its Maryland customers to conserve by providing energy saving opportunities in the home and installing energy efficient products which in turn save money.

Earlier this year, Pepco also announced that beginning June 1, 2010 the cost for Standard Offer Service (SOS) electricity will decrease by 2.2 percent for residential Maryland customers. The reduction in the cost of electricity translates into a savings of \$3.37 on the average monthly bill. This decrease in the cost of electricity is the result of competitive bids to supply electricity.

Despite our efforts on this front, we know many of our customers remain concerned about their energy bills. In consideration of these customers, Pepco urges the County to avoid raising additional revenues through energy bills and to seek alternative funding solutions wherever possible.

Pepco recognizes this is a very challenging economic time for Montgomery County and tough decisions must be made in order to balance the budget. However, we felt that it was critical to communicate in real terms the direct and indirect impact of this proposed energy tax to our common constituency.



701 Ninth Street, NW  
Suite 9212  
Washington, DC 20068

**Kim M. Watson**  
Vice President - Maryland Affairs

(202) 872-2524  
kmmwatson@pepco.com

April 28, 2010

The Honorable Nancy Floreen  
President, Montgomery County Council  
100 Maryland Avenue  
Rockville, MD 20850

Dear Council President Floreen:

I write today to further address Pepco's position on Expedited Council Bill 15-10, Taxation -Fuel-Energy Tax -Rate, and the alternative resolution to significantly increase the fuel/energy tax rates. Previously, Charles Washington, Manager, Government Affairs, testified on behalf of Pepco that the proposed increase would negatively impact the 306,000 commercial and residential customers we serve in Montgomery County. In addition to our concern about the negative direct and indirect impact of this proposed energy tax on our customers, Pepco strongly objects to this tax being implemented retroactively.

The most recent County Executive proposal requests that the new rates take effect on May 1, 2010. However, the County Council has announced that it does not plan to take action on the Executive's proposal before May 19. This plan poses serious legal issues as well as operational and customer service challenges for Pepco.

Pepco objects to the retroactive application of the proposed fuel/energy tax, as it is unconstitutional under Article 24 of the Maryland Declaration of Rights, and Article III, §40 of the Maryland Constitution. In determining whether or not a retroactive civil tax is unconstitutional under these provisions of the Maryland Constitution, the Maryland courts analyze the legislature's intent and whether the retroactive legislation impairs a vested right. Pepco's position is that the proposed retroactive tax likely impairs a vested right and is therefore unconstitutional.

The Court of Appeals of Maryland has broadly defined "vested rights." When determining whether vested rights have been impaired, the Maryland courts consider whether the retroactive tax is a change in legislative policy. Pepco submits that the retroactive tax is tantamount to a change in legislative policy, and thus, unconstitutional, insofar as the fuel/energy tax is intended to be fully recoverable from customers. County

The Honorable Nancy Floreen  
April 28, 2010  
Page 2

Executive Leggett's March 18, 2010 letter to you explicitly acknowledged this policy by stating, "[a]s the Council knows, the County's energy tax is actually a tax on fuel oil, natural gas, and electric utility providers which is passed on to all utility customers."

However, the proposed retroactive application of the fuel/energy tax would likely prevent full recovery of this tax from Pepco's customers. Our intention, both in Mr. Washington's testimony and in this letter, has been to illustrate the difficulties, and likely near impossibility, of full recovery of the retroactive portion of the proposed fuel/energy tax. Thus, approval of the proposed retroactive tax would indicate a change in legislative policy from complete recovery of the tax from customers to only partial recovery by utilities, at best.

Additionally, the sheer magnitude of the proposed increase is sufficient to indicate a change in legislative policy, which would be unconstitutional if applied retroactively. If adopted, the proposed amendment will retroactively raise the fuel/energy tax a staggering 100%. The Court of Appeals of Maryland has previously considered the retroactive approval of a much lower percentage tax increase to be a change in legislative policy.

In addition to the fact that the proposed retroactive fuel/energy tax represents a clear departure from existing legislative policy, the courts may consider several additional factors in determining whether a vested right is impaired by a retroactive civil statute. One such factor is whether the statute works substantial injustice. Pepco submits that the negative effects of trying to recover the proposed retroactive portion of the fuel/energy tax increase (i.e., approximately \$4.5 million) works a substantial injustice against the company. When combined with the customer/constituent dissatisfaction, community ill will, and increased operational demands; the potential financial exposure Pepco faces for the portion of the retroactive increase that it is unable to collect from customers is all the more burdensome.

In addition to the unconstitutionality of the retroactive tax increase, Pepco faces serious, financial, operational, and customer care concerns. If the fuel/energy tax is implemented retroactively, under our current tariff, Pepco would under-collect the revenue required to compensate the Company for the fuel energy tax by approximately \$4.5 million. Our billing system must be programmed in advance of any tax increases and is unable to "back-bill" customers for a retroactive tax increase. If the Council approves a retroactive tax increase, it will be nearly impossible for the Company to accurately collect the difference in the tax increase from customers, based on their usage.

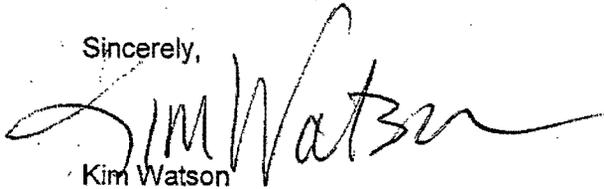
Instead, Pepco would either attempt to manually calculate the adjustment to all Montgomery County customers on our system or cancel and "rebill" all statements issued before May 20. Either of these options would be costly and labor intensive, requiring either weeks of programming or many man-hours of account work in addition to costs for postage and printing new statements. Undoubtedly, Pepco would still be unable to fully realize the required revenue because we would be unable to collect from customers who are no longer associated with the premises or have been final billed.

The Honorable Nancy Floreen  
April 28, 2010  
Page 3

The customer impact of this retroactive tax would prove challenging to the company as well. If the County Executive's proposal were approved, Pepco would implement a proactive communications plan to explain to customers why they may now have a balance for a monthly charge that they had previously paid in full. Still, we would expect a flood of confused and angry customers to contact our call centers. Large businesses, in particular, stand to see significant increases and many of these businesses will express their serious concerns about such large increases to Pepco's customer service representatives. It is also highly likely that these customers, your constituents, will contact the Council and the Maryland Public Service Commission.

In aggregate, the challenges of this retroactive tax will be a costly burden for Pepco and its residential and business customers. Pepco strongly objects to the proposed retroactive application of the tax. If the County Council chooses to raise the fuel energy tax to address the current budget challenges, the company requests that the Council collect the desired revenue through a constitutionally-permissible implementation of the fuel energy tax that is not retroactive and that provides ample notice of these significant bill increases to Pepco and its customers.

Sincerely,

A handwritten signature in black ink, appearing to read "Kim Watson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Kim Watson



101 Constitution Avenue, NW  
Washington, DC 20080  
www.washingtongas.com

**Steven Jumper**  
Director  
Corporate Public Policy  
(202) 624-6696 Office  
(202) 624-6010 Fax  
sjumper@washgas.com

May 12, 2010

The Honorable Nancy Floreen  
President, Montgomery County Council  
100 Maryland Avenue  
Rockville, MD 20850

Dear Madam President:

Washington Gas strongly urges the Council to oppose any provision in Expedited Council Bill 15-10, Taxation-Fuel-Energy Tax-Rate and the alternative resolution that would authorize the increased energy tax to be implemented retroactively.

No doubt you are aware of the legal issues raised by PEPCO in its letter to you dated April 28, 2010 regarding the constitutionality of a retroactive tax rate resolution as proposed in Bill 15-10. While the Energy Tax is ultimately paid by utility customers, the company is obligated to first pay the tax to the County and then collect it from customers. It was the specific intent of the Council, consistent with legislative bodies throughout this region and the country, to allow utilities to collect this cost from its customers and was authorized by law to do so. Washington Gas is extremely concerned not only about the financial hardship an uncollectible retroactive tax increase will have on the company, but also about the misperception our customers will have by concluding the increase in their bill is due to a utility rate increase instead of a county tax increase.

Further, if the retroactive provision (begin collecting on May 1) were to be deemed legally invalid by a court of competent jurisdiction, the utility would be obligated, on a pro-rated basis, to return the tax to the customer, or credit accounts accordingly. This process would be time-consuming and very expensive for Washington Gas to implement since its billing systems are not designed to accommodate these detailed tax calculations.

This provision would ultimately undermine the intent of the legislature, would diminish the long-standing reputation the company has built in the community over 160 years of service, and would promote inaccurate, underlying inferences regarding the accuracy of our billing processes and customer service in general. Therefore, we urge you to oppose any provision to implement the increased energy tax retroactively.

Kind regards,

A handwritten signature in black ink, appearing to be "S. Jumper", with a long horizontal line extending to the right.

pc: Montgomery County Council Members

**Faden, Michael**

---

**From:** cwashingtonjr@pepco.com  
**Sent:** Thursday, May 06, 2010 7:15 PM  
**To:** Faden, Michael  
**Subject:** SOS Reduction information

Beginning June 1, 2010, the cost for Standard Offer Service (SOS) electricity will decrease for Pepco MD commercial and residential customers, compared to rates in effect at the same time in 2009.

SOS prices are subject to change, based on market conditions. At some point in the future it is almost a certainty that SOS prices will increase.

Under deregulation, Maryland's bidding process requires Pepco to solicit a series of two-year contracts twice a year. Each contract covers approximately 25 percent of the anticipated amount of the electricity required to meet the needs of Pepco's customers.

91% of Residential customers in Montgomery County use SOS, while 9% shop for competitive supply.

Many of the businesses listed by the County Executive use competitive supply, so they will not benefit from SOS reductions.

**82% of commercial usage in Montgomery County is competitively supplied, while only 18% of commercial usage is supplied by SOS.**

The proposed rates can be found at:

[http://www.pepco.com/\\_res/documents/PepcoSOSQuarterlyandResidentialTypeIandTypeIIRates042810.pdf](http://www.pepco.com/_res/documents/PepcoSOSQuarterlyandResidentialTypeIandTypeIIRates042810.pdf)

Charles L. Washington, Jr.  
Public Affairs Manager  
PEPCO  
202-872-2132 (Office)  
202-872-2032 (Fax)

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BILL 15-10

Marin, Sandra

2010 APR 21 AM 8:29

RECEIVED  
MONTGOMERY COUNTY  
COUNCIL

**From:** Floreen's Office, Councilmember  
**Sent:** Tuesday, April 20, 2010 4:51 PM  
**To:** Montgomery County Council  
**Subject:** FW: Proposed Energy Tax

056157



-----Original Message-----

**From:** Bruce H. Lee [mailto:bruce@leedg.com]

**Sent:** Tuesday, April 20, 2010 11:12 AM

**To:** Floreen, Nancy

**Cc:** Andrew's Office, Councilmember; Ervin's Office, Councilmember; Elrich's Office, Councilmember; councilmember.berliner@montgomerycountymd.gov; councilmember.trachtenberg@montgomerycountymd.gov; Leventhal's Office, Councilmember; Navarro's Office, Councilmember; Knapp's Office, Councilmember

**Subject:** Proposed Energy Tax

Dear Council President Nancy Floreen,

The Greater Silver Spring Chamber of Commerce contacted our company last week and informed me of the proposed increase of the Montgomery County Energy Tax which is under consideration. We have analyzed some of our properties and discussed internally the impact of the new Energy Tax. By sampling a few of our properties to determine the financial impact on our tenants and on LDG INC, I can provide several examples of the affects on both large businesses and small businesses. Here is what we have determined the impacts to be:

1. BAE is a single tenant in Aspen Hill where they occupy 263,000 square feet of office space. Many people remember the property as the Vitro property. Based on BAE's annual use of KWH they paid \$86,342.34 over the prior year for their portion of the Montgomery County Energy Tax. Under the new proposed Energy Tax, their payment will increase to \$141,342.42. This represents an increase of approximately 63.7%. BAE is 100% responsible for their utility bills under the terms of their lease. The impact calculation is attached for you to see (click on the bottom BAE tab on the spreadsheet to view). As BAE is vacating Aspen Hill this summer and downsizing their offices in Montgomery County this building will be 100% Vacant whereby LDG INC will be responsible for the utilities. There is no new tenant to occupy the building which has been on the market for over a year.
2. Ray's the Classics, located at 8606 Colesville Road, is a good example of what will happen to a small business with the proposed increase. Keep in mind, Ray's the Classics moved from Virginia and is now recognized as one of the best steakhouses in the DC area. They took a gamble on Silver Spring and Montgomery County and they are hanging-in-there but it is tough going. They are currently paying \$5,189.58 annually for their portion of the Montgomery County Energy Tax. After applying the proposed increase in the Energy Tax their new annual payment will be approximately \$8,459.31 annually. This represents an increase of approximately 63.7%. Ray's the Classic's is responsible for 100% of their utility bills under the terms of their lease where they occupy 4,862 square feet.
3. The Aspen Hill Florist, located at our Northgate Plaza Shopping Center, occupies 1,230 square feet of space. They paid \$971.05 over the prior year for their portion of the Montgomery County Energy Tax. Under the new proposed Energy Tax, their payment will increase to approximately \$1,589.61 annually. This represents an increase of approximately 63.7%. Under the terms of their lease, Aspen Hill Florist is 100% responsible for their utilities.
4. Lee Plaza is a Class A office building located in Downtown Silver Spring and is owned and managed by LDG INC. The total rentable area is 138,386 square feet. The building is occupied by approximately 33 tenants mostly made up of small businesses. Over the prior year Lee Plaza's paid \$55,200.41 for its portion of the

Montgomery County Energy Tax. Under the new proposed Energy Tax, Lee Plaza's payment will increase to approximately \$90,363.06 annually. This represents an increase of 63.7%. Under the terms of the individual leases, tenants participate in reimbursing the landlord for Common Area Maintenance (CAM) which includes utilities. Keep in mind, the base year of the lease determines how much they pay. A new lease, with a new lease base year, will pay very little and the landlord will be responsible for covering the increase. The tenants who have old base years will pick up the increase. So, for example, a small law firm, non profit or accounting firm occupying 7,000 square feet of space would see an increase of \$1,905 to their annual CAM reimbursement payment. There is a spread sheet for Lee Plaza (click on the bottom Lee Plaza tab on the spreadsheet to view) breaking out the new Energy Tax which also shows the impact of the pass thru to a tenant with an old base year.

This proposed Energy Tax is a significant hit to the bottom line of businesses many of whom are already struggling to stay in business. This could not come at a worse time. Property owners are experiencing a continued decline in rental rates and vacancy continues to rise for all office properties in Montgomery County. In sampling 548 office buildings which represent 37,745,921 square feet of office space, the current vacancy rate is 19% and the projected vacancy rate of space coming available but still occupied or under lease is 26.2%. Last year at this time, the same sampling of office buildings had a vacancy rate of 16.3% and the projected vacancy rate of space coming available was 24.6%. The vacancy trend continues to get worse, not better. I have shared my monthly analysis on vacancy in Montgomery County in the past with you and I would be happy to continue sharing my reports if they are of help. I wish had better news on the County's office vacancy.

A time when businesses in general are seeing their revenues drop and expenses going up is not a good time to pile on taxes and make the bleeding worse. Businesses bring revenue and we need to foster and encourage businesses to stay, locate to and flourish in Montgomery County. On many fronts, we are no longer competitive with other jurisdictions and our County's reputation remains one of being not "business-friendly". Please do not impose this significant tax increase on all the Montgomery County businesses.

Thank you for your consideration in this matter.

Let me know how I can be of help. It is rough for all of us and we are in this situation together.

Yours truly,

Bruce

Bruce H. Lee  
 President  
 Lee Development Group  
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 8601 Georgia Avenue  
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LDG INC  
 Proposed Energy Tax Impact  
 BAE - Single User Tenant

BAE Account - From April 2009 Billing period

263,000 Square feet

2732480021

|                               |
|-------------------------------|
| Rolling 12 Month<br>KWH Usage |
| 6,237,139                     |

Total KWH for BAE

6,237,139

|  |              |                 | PSF      |
|--|--------------|-----------------|----------|
| Energy Tax Based on Current Rate                       | \$ 0.0138433 | \$ 86,342.34    | \$ 0.328 |
| Energy Tax Based on Proposed Rate                      | \$ 0.0226614 | \$ 141,342.42   | \$ 0.537 |
| Increase Due to Increased Rate                         |              | \$ 55,000.08    | \$ 0.209 |
| Percentage Increase                                    |              | 63.70%          |          |
| Total Electricity Expense BAE (est)                    |              | \$ 953,143.18   | \$ 3.624 |
| Increase Due to Energy Tax                             |              | 55,000.08       | 0.210    |
| Projected Total Electricity Expense With Increased Tax |              | \$ 1,008,143.26 | \$ 3.834 |
| Percentage Increase In Total Electric bill             |              | 5.77%           |          |

1) 4-20-10 Fuel/Energy Tax Rate  
2) A 15-10

MF  
CC

**Guthrie, Lynn**

**From:** Floreen's Office, Councilmember  
**Sent:** Monday, May 10, 2010 11:56 AM  
**To:** Montgomery County Council  
**Subject:** FW: Urgent - Additional Information - Energy Tax

056767



-----Original Message-----

**From:** Jane Redicker [mailto:jredicker@gsscc.org]  
**Sent:** Friday, May 07, 2010 3:47 PM  
**To:** Floreen's Office, Councilmember; Trachtenberg's Office, Councilmember  
**Cc:** Silverman, Steve; Bill Kominers; Brad Stewart; cfcamacho@comcast.net; jredicker@gsscc.org; Jennifer Nettles; Jere Stocks; Ray Barry; Robert Scott; tgarner@mtb.com  
**Subject:** FW: Urgent - Additional Information - Energy Tax

To: Council President Nancy Floreen  
Councilmember Duchy Trachtenberg

From: Jane Redicker

Council President Floreen and Councilmember Trachtenberg, I am forwarding, with permission, the reaction of two of our members to the assertion by the County Executive that the proposed energy tax increase will be offset by a decrease in rates. Based on their comments, this is clearly not the case for businesses.

Should you have any questions, do not hesitate to call me.

**Jane Redicker, 2010 MACCE President**  
*President & CEO*  
Greater Silver Spring Chamber of Commerce  
8601 Georgia Avenue, Suite 203  
Silver Spring, MD 20910  
Phone: (301) 565-3777  
jredicker@gsscc.org

RECEIVED  
MONTGOMERY COUNTY  
COUNCIL  
2010 MAY 10 PM 4: 1

**From:** Nona L. Olson [mailto:nlo@cclandco.com]  
**Sent:** Friday, May 07, 2010 11:03 AM  
**To:** 'Bruce H. Lee'; Jane Redicker;  
**Subject:** RE: Urgent - Additional Information - Energy Tax

I also called Pepco. I agree 100% with Bruce's comments and analysis. The tax will be a **huge** hit on businesses and the argument that it won't be noticed because we're gliding thru a low rate period is false. Barrell prices are lower because economies have tanked and demand is down. Jurisdictions are looking for money because normal sources (taxes) have dried up. Assessments are down because bldgs are vacant and rental rates have dropped significantly. We're all in this together and it's wrong for the county to look to an industry already suffering with projections for increased downturns and demand more money. I've attached a spreadsheet showing 5 of our properties and what will be over 1/4 million dollar increase. To comment on the argument for better energy efficiency, that's great, but true savings come from design, plans, permitting and then installation - none of which is a quick fix. This year we're designing, bidding and permitting the replacement of 16 air handlers in one bldg. Next year we'll replace half and in 2012 the second half. So we will be more energy efficient - at a

not insignificant cost – which is another reason why this tax increase will stymie growth and change when both should be encouraged.

Leslie

*N. Leslie Olson, RPA  
Assistant Vice President  
The Chevy Chase Land Company  
2 Wisconsin Circle, Suite 560  
Chevy Chase, Maryland 20815  
tel 301-654-2292  
fax 301-654-2291  
nlo@cclandco.com*

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**From:** Bruce H. Lee [mailto:bruce@leedg.com]  
**Sent:** Friday, May 07, 2010 10:26 AM  
**To:** Jane Redicker; Nona L. Olson;  
**Subject:** RE: Urgent - Additional Information - Energy Tax

Jane,

I had an opportunity to check with Pepco and asked about the Standard Of Service (SOS) issue the County Executive raises in his Memo. Here is what I was told:

The magnitude of the tax is excessive and unduly burdensome on Pepco customers. In terms of the County Executive's memo, it is true that Pepco's Standard Offer Service (SOS) will decrease beginning June 1, 2010. Under deregulation, Maryland's bidding process requires Pepco to solicit a series of two-year contracts twice a year. Each contract covers approximately 25 percent of the anticipated amount of the electricity required to meet the needs of Pepco's customers. Due to this procedure, a quarter of the current contracts will expire in May 2010, to be replaced by new, lower-priced contracts that were more recently bid.

However, the SOS decrease would have more of an impact on residential customers than commercial customers -- consider the following:

91% of Residential customers in Montgomery County use SOS, while 9% shop for competitive supply.

Many of the businesses listed by the County Executive use competitive supply, **so they will not benefit from SOS reductions.**

**82% of commercial usage in Montgomery County is competitively supplied, while only 18% of commercial usage is supplied by SOS.**

Keep in mind, the pricing for the Standard Offer Service (SOS) fluctuates and although it is low at the moment we can expect higher Standard Offer Service costs in the future. This not a good argument for slamming the Montgomery County businesses with such a massive Energy Tax increase. As you can see 82% of the businesses would not benefit from the reduced SOS.

The message being sent is counter to job creation and helping businesses at a time help is desperately needed. It is important to know that as of May 2010 the vacancy rate for all office space in Montgomery County is approximately 19% with a projected total vacancy rate of approximately 26.4% (CoStar May 2010 data page 62 attached). I can send you the whole report if you would like it.

5/10/2010

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I fear for the building owners who are underwater with their commercial loans (with high vacancy in their buildings) as they will now get slammed with the Montgomery County Energy Tax at a time they can least afford it. In my opinion, The commercial mortgage market is the next wave to hit our economy. The question is when as the banks keep kicking the can. Knowing this looming problem is out there, lets use two of my properties for examples to see the financial impact: Under the proposed tax increase, owners could be facing another \$55,000 to \$86,000 annually when comparing with our Lee Plaza building and BAE property in Aspen Hill based on their annual KWH usage. I have attached the calculations so you can see the financial impact.

The commercial owners who are under water can barely make their monthly interest payments now. This tax increase is significant and could put them over the edge possibly forcing the banks to act by going to foreclosure. There are many reasons for not imposing such a heavy tax which you understand. This is a terrible recommendation at a time when businesses are under siege in Montgomery County. We are not competitive with neighboring jurisdictions. It is very expensive and difficult to do business in Montgomery County. So why keep raising the bar? Hope this information is of help. Feel free to share it.

Bruce

Bruce H. Lee  
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 Lee Development Group  
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**From:** Jane Redicker [mailto:[jredicker@gsscc.org](mailto:jredicker@gsscc.org)]  
**Sent:** Thursday, May 06, 2010 3:46 PM  
**To:**  
**Subject:** FW: Urgent - Additional Information - Energy Tax  
**Importance:** High

Colleagues –

I'm sending this to you because you have expressed interest in the Chamber's efforts to oppose the energy tax

5/10/2010

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increase. Please see below and the attached letter from the County executive. He is saying that because rates are low now, the increased tax won't really hurt. Does this make sense to you? It is my understanding that the rates are somewhat lower now and are locked in for residential, but not commercial. Therefore, they could go up at any time.

Council is taking this matter up again tomorrow morning. If any of you could get back to me yet this afternoon with your take on this, I would appreciate it.

Jane

*Jane Redicker, 2010 MACCE President*

*President & CEO*

**Greater Silver Spring Chamber of Commerce**

8601 Georgia Avenue, Suite 203

Silver Spring, MD 20910

Phone: (301) 565-3777

jredicker@gsscc.org

**From:** Silverman, Steve [mailto:Steve.Silverman@montgomerycountymd.gov]

**Sent:** Thursday, May 06, 2010 3:18 PM

**To:** African American Chamber of Commerce; Asian Pacific American Chamber of Commerce; Clarksburg Chamber of Commerce; Gaithersburg-Germantown Chamber of Commerce; Greater Bethesda Chevy Chase Chamber of Commerce; Jane Redicker; Groff, Kelly; Hispanic Chamber of Commerce of MC; Latino Economic Development Corporation; MD/DC Minority Supplier Development Council; Mid-Atlantic Hispanic Chamber of Commerce; Montenegro, Raquel; Montgomery County Chamber of Commerce; Olney Chamber of Commerce; Poolesville Chamber of Commerce; Potomac Chamber of Commerce; Rockville Chamber of Commerce; Rockville Economic Development, Inc.; Suburban Maryland International Trade Association; Technology Council of Maryland; Wheaton and Kensington Chamber of Commerce; Women Business Owners

**Cc:** Green, Trina

**Subject:** Urgent - Additional Information - Energy Tax

Dear Colleague:

I am sharing the attached document which County Executive Leggett submitted to the County Council this morning. This memorandum, and corresponding analyses, makes note of the fact that the recently approved reduction in energy rates charged by metropolitan utility companies will come close to offsetting the proposed increase in the energy tax. It also documents the various energy efficiency programs available to residential and commercial users from energy companies, and from State and local government. All of us should help publicize these cost-saving measures to our corporate constituents, regardless of the final decision on the proposed energy tax.

I encourage you to review this information and share as you deem appropriate.

Steve

Steven A. Silverman  
Director

5/10/2010

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Montgomery County  
Department of Economic Development  
111 Rockville Pike, Suite 800  
Rockville, Maryland 20850  
240-777-2005 direct  
240-777-2001 fax  
[www.montgomerycountymd.gov](http://www.montgomerycountymd.gov)

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### Comparison of Fuel/Energy Tax Rates, Current and FY11 Proposed

|   | Electricity Rates |                 | Natural Gas Rates |                 | Projected Fuel/Energy Tax Revenue, FY11<br>(\$ in millions)<br>(percent of total tax revenue) |
|---|-------------------|-----------------|-------------------|-----------------|---|
|   | Residential       | Non-Residential | Residential       | Non-Residential |   |
| <b>Montgomery County</b>                                    |                   |                 |                   |                 | <b>\$264.9 (8.6%)</b>   |
| Current Rate  | 0.0052237964      | 0.0138432612    | 0.0449864339      | 0.1192142417    |   |
| FY11 Proposed Rate**  | 0.0104475928      | 0.0276865224    | 0.0899728678      | 0.2384284834    |   |
| <b>% Change Current-Proposed</b>                            | <b>100%</b>       | <b>100%</b>     | <b>100%</b>       | <b>100%</b>     |   |
| <b>Baltimore City</b>                                       |                   |                 |                   |                 | <b>\$30.8 (2.8%)</b>  |
| Current Rate  | 0.0020070000      | 0.0062700000    | 0.0238300000      | 0.0810770000    |   |
| FY11 Proposed Rate  | 0.0020900000      | 0.0065290000    | 0.0248170000      | 0.0844360000    |   |
| <b>% Change Current-Proposed</b>                            | <b>4%</b>         | <b>4%</b>       | <b>4%</b>         | <b>4%</b>       |   |
| <b>Prince George's County*</b>                              |                   |                 |                   |                 | <b>\$56.8 (4.3%)</b>  |
| Current Rate  | 0.0080900000      |                 | 0.0829060000      |                 |   |
| FY11 Proposed Rate  | 0.0069230000      |                 | 0.0700090000      |                 |   |
| <b>% Change Current-Proposed</b>                            | <b>-14%</b>       |                 | <b>-16%</b>       |                 |   |
| <b>Fairfax County</b>                                       |                   |                 |                   |                 | <b>\$45.6 (1.6%)</b>  |
| Current Rate (no proposed increase)                         | 0.0060500000      | 0.0059400000    | 0.0525900000      | 0.0479400000    |   |
| <b>% Change Current-Proposed</b>                            | <b>0%</b>         | <b>0%</b>       | <b>0%</b>         | <b>0%</b>       |   |
| <b>District of Columbia</b>                                 |                   |                 |                   |                 | <b>\$152.3 (3.1%)</b>   |
| Current Rate (no proposed increase)                         | 0.0070000000      | 0.0077000000    | 0.0707000000      | 0.0777700000    |   |
| <b>% Change Current-Proposed</b>                            | <b>0%</b>         | <b>0%</b>       | <b>0%</b>         | <b>0%</b>       |   |
| <b>Rate Comparison with Montgomery County, FY2011 Rates</b> |                   |                 |                   |                 |   |
| <b>Baltimore City</b>                                       |                   |                 |                   |                 |   |
| Rate Difference   | 0.0083575928      | 0.0211575224    | 0.0651558678      | 0.1539924834    |   |
| <b>% Higher in MC (Lower)</b>                               | <b>400%</b>       | <b>324%</b>     | <b>263%</b>       | <b>182%</b>     |   |
| <b>Prince George's County***</b>                            |                   |                 |                   |                 |   |
| Rate Difference   | 0.0035245928      | 0.0207635224    | 0.0199638678      | 0.1684194834    |   |
| <b>% Higher in MC (Lower)</b>                               | <b>51%</b>        | <b>300%</b>     | <b>29%</b>        | <b>241%</b>     |   |
| <b>Fairfax County</b>                                       |                   |                 |                   |                 |   |
| Rate Difference   | 0.0043975928      | 0.0217465224    | 0.0373828678      | 0.1904884834    |   |
| <b>% Higher in MC (Lower)</b>                               | <b>73%</b>        | <b>366%</b>     | <b>71%</b>        | <b>397%</b>     |   |
| <b>District of Columbia</b>                                 |                   |                 |                   |                 |   |
| Rate Difference   | 0.0034475928      | 0.0199865224    | 0.0192728678      | 0.1606584834    |   |
| <b>% Higher in MC (Lower)</b>                               | <b>49%</b>        | <b>260%</b>     | <b>27%</b>        | <b>207%</b>     |   |

\* The tax rates in Prince George's County's proposed FY11 operating budget do not distinguish between residential and non-residential rates.

\*\* Montgomery County Executive's April 22<sup>nd</sup> proposed tax increase.

\*\*\* Comparison of both Montgomery County residential and non-residential rates with Prince George's County's single rate.

Sources: Montgomery County Executive's Proposed FY11 Operating Budget and April 22, 2010 FY10 and FY11 Budget Adjustments; Baltimore City Fiscal 2011 Preliminary Budget Plan; Prince George's County Proposed Operating Budget Fiscal Year 2011; Fairfax County Code; Fairfax County Website; Fairfax County FY2011 Advertised Budget Plan; District of Columbia Code; District of Columbia Website; District of Columbia FY 2011 Proposed Budget and Financial Plan; Maryland Association of Counties (MACO) FY 2010 Budget and Tax Rates Survey

## Calculation of Monthly Fuel/Energy Tax for Electricity Usage by Actual Montgomery County Businesses and Homes

Business and home examples provided by Charles Washington, PEPCO's Manager of Government Affairs. Tax calculations based on the Montgomery County Executive's proposed fuel/energy tax rate on April 22, 2010 and on the proposed FY11 rates in other jurisdictions.

### Examples of Monthly Electricity Tax – Non-Residential

| Type of Business              | Location       | Actual Kilowatt Hours Used – March 2010 | Hypothetical Monthly Fuel/Energy Tax Based on Proposed FY11 Rate in... |                      |                        |                |                |
|-------------------------------|----------------|---|--|----------------------|------------------------|----------------|----------------|
|                               |                |   | Montgomery County  | District of Columbia | Prince George's County | Baltimore City | Fairfax County |
| Biotech Company               | not identified | 5,112,805                               | \$144,556  | \$65,766             | \$35,396               | \$33,382       | \$30,370       |
| Hotel                         | Bethesda       | 392,488                                 | \$10,867   | \$5,049              | \$2,717                | \$2,563        | \$2,331        |
| Office Building               | Rockville      | 365,876                                 | \$10,130   | \$4,706              | \$2,533                | \$2,389        | \$2,173        |
| Grocery Store                 | Silver Spring  | 232,721                                 | \$6,443  | \$2,993              | \$1,611                | \$1,519        | \$1,382        |
| Apartment Building            | Bethesda       | 194,347                                 | \$5,381  | \$2,500              | \$1,345                | \$1,269        | \$1,154        |
| Non-profit – Serving Children | not identified | 129,920                                 | \$3,597  | \$1,671              | \$899                  | \$848          | \$772          |
| Restaurant                    | Silver Spring  | 28,640                                  | \$793  | \$368                | \$198                  | \$187          | \$170          |
| Ice Cream Parlor              | Germantown     | 9,960                                   | \$276  | \$128                | \$67                   | \$65           | \$59           |
| Coffee Shop                   | Rockville      | 8,118                                   | \$225  | \$104                | \$56                   | \$53           | \$48           |
| Florist                       | Takoma Park    | 1,584                                   | \$44   | \$20                 | \$11                   | \$10           | \$9            |

### Examples of Monthly Electricity Tax – Residential

| Type of Home | Location      | Size              | Actual Kilowatt Hours Used – March 2010 | Hypothetical Monthly Fuel/Energy Tax Based on Proposed FY11 Rate in... |                      |                        |                |                |
|--------------|---------------|-------------------|---|--|----------------------|------------------------|----------------|----------------|
|              |               |                   |   | Montgomery County  | District of Columbia | Prince George's County | Fairfax County | Baltimore City |
| House        | Germantown    | 6 BR, 5 BA        | 5420                                    | \$57   | \$38                 | \$38                   | \$33           | \$11           |
| Townhouse    | Silver Spring | 1,428 square feet | 3370                                    | \$35   | \$24                 | \$23                   | \$20           | \$7            |
| House        | Potomac       | 7,150 square feet | 1868                                    | \$20   | \$13                 | \$13                   | \$11           | \$4            |
| House        | Rockville     | 4 BR, 3.5 BA      | 1180                                    | \$12   | \$8                  | \$8                    | \$7            | \$2            |
| House        | Gaithersburg  | 3,600 square feet | 650                                     | \$7  | \$5                  | \$4                    | \$4            | \$1            |
| Apartment    | Bethesda      | 789 square feet   | 258                                     | \$3  | \$2                  | \$2                    | \$2            | \$1            |

Sources for both tables: Businesses and electricity usage taken from April 20, 2010 written testimony from Charles Washington, PEPCO Manager of Government Affairs; Montgomery County Executive's Proposed FY11 Operating Budget and April 22, 2010 FY10 and FY11 Budget Adjustments; Baltimore City Fiscal 2011 Preliminary Budget Plan; Prince George's County Proposed Operating Budget Fiscal Year 2011; Fairfax County Code; Fairfax County Website; Fairfax County FY2011 Advertised Budget Plan; District of Columbia Code; District of Columbia Website; District of Columbia FY 2011 Proposed Budget and Financial Plan; OLO analysis

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April 27, 2010

MEMORANDUM

TO: The Honorable Nancy Floreen, Chair  
Transportation, Infrastructure, Energy & Environment (T&E)  
Montgomery County Council

The Honorable Duchy Trachtenberg, Chair  
Management and Fiscal Policy (MFP)  
Montgomery County Council

FROM: Jacob Sesker, Planner Coordinator (301-650-5619)

SUBJECT: Summary of Economic Issues-Fuel/Energy Tax

---

The proposed budget includes additional revenues of approximately \$100 million attributable to an increase in the Fuel/Energy Tax. As a matter of perspective, that \$100 million gap is equivalent to more than 8% of the total countywide real property tax revenues. That gap will be closed by increasing taxes or decreasing spending<sup>1</sup> or some combination of the two; however, actual increases in property tax are unlikely. To the extent that the gap is partially closed by tax increases, those increases will be in the form of increases to excise taxes<sup>2</sup>.

The Executive has now proposed an increase of 100% in the Fuel/Energy tax rates, which follows the earlier proposals to increase the rates by 39.6% and then 63.7%. For each of the three successive proposals, the Executive has proposed increasing the rates by the same percentage for all fuel types and for all end users.

The following represents a brief outline of the economic issues raised by this proposed tax increase. In brief, those issues are uniformity/equity, and timing (onset and sunset). Further discussion, and possibly analysis, is almost certain to occur over the next two weeks. Answering these questions will likely require further coordination between the County Executive, Council staff, and the Planning Department.

---

<sup>1</sup> An issue not addressed in this memo is the economic impact of reductions in government services, some of which do negatively impact businesses and the overall business climate in a jurisdiction.

<sup>2</sup> Excise taxes are taxes on the exercise of a privilege (e.g. distribution of energy, consumption of alcohol, etc.). In contrast to property taxes, there is no Maryland requirement that excise taxes be uniform (i.e. that commercial and residential rates be the same). In addition, there are no Charter limitations on increases in excise taxes. Excise taxes, like all taxes, are primarily tools for raising revenue. Excise taxes may often be perceived as a way to influence behavior as well—for that reason many excise taxes are referred to as “sin taxes.”

**Uniformity**

*a. Commercial versus residential*

The question raised by many members of the business community in compelling written testimony submitted at the April 21<sup>st</sup> public hearing was whether the increase in the Fuel/Energy Tax unfairly burdens the business community. If the County leans more heavily on the Fuel/Energy Tax to raise revenues, the portion of tax revenues (all sources, i.e. property, income, development impact, and other excise taxes) generated by commercial uses will increase. A question for further analysis is whether that increase will be exacerbating an existing inequality between commercial and residential, or narrowing an existing gap.

In this case, the current Fuel/Energy Tax rates for commercial users are 2.65 times higher than the rates charged for energy distributed to residential users<sup>3</sup>. Because the Executive has proposed equal rate increases for residential and commercial, that relationship would remain the same if the proposal were adopted.

Alternative distributions of the increase could fall anywhere within a range. The examples below are intended to illustrate alternative distributions of the burden where the total amount of revenue raised by the tax remains constant:

**Executive's Proposal**

|                | FY11 Consumers | FY 11 Average Tax Paid | FY 11 Projected Revenue | % Rate Increase |
|----------------|----------------|------------------------|-------------------------|-----------------|
| Residential    | 367,000        | \$198.93               | \$73,005,747            | 100%            |
| Commercial     | 37,977         | \$5,236.56             | \$198,868,900           | 100%            |
| Total-All Uses |                |                        | \$271,874,646           |                 |

**Example 1: Maintain FY10 Commercial Rate**

|                | FY11 Consumers | FY 11 Average Tax Paid | FY 11 Projected Revenue | % Rate Increase |
|----------------|----------------|------------------------|-------------------------|-----------------|
| Residential    | 367,000        | \$469.86               | \$172,440,197           | 372%            |
| Commercial     | 37,977         | \$2,618.28             | \$99,434,450            | 0%              |
| Total-All Uses |                |                        | \$271,874,646           |                 |

**Example 2: Maintain FY 10 Residential Rate**

|                | FY11 Consumers | FY 11 Average Tax Paid | FY 11 Projected Revenue | % Rate Increase |
|----------------|----------------|------------------------|-------------------------|-----------------|
| Residential    | 367,000        | \$99.46                | \$36,502,873            | 0%              |
| Commercial     | 37,977         | \$6,197.74             | \$235,371,773           | 137%            |
| Total-All Uses |                |                        | \$271,874,646           |                 |

<sup>3</sup> For comparison, in Fairfax County the rate charged to commercial users is 1.25 times higher than the rate charged to residential users.

**Example 3: Achieve 50/50 Split Overall**

|                | FY11<br>Consumers | FY 11 Average<br>Tax Paid | FY 11 Projected<br>Revenue | % Rate Increase |
|----------------|-------------------|---------------------------|----------------------------|-----------------|
| Residential    | 367,000           | \$370.40                  | \$135,937,323              | 272%            |
| Commercial     | 37,977            | \$3,579.46                | \$135,937,323              | 37%             |
| Total-All Uses |                   |                           | \$271,874,646              |                 |

**Example 4: Split Executive's Proposed Increase 50/50**

|                | FY11<br>Consumers | FY 11 Average<br>Tax Paid | FY 11 Projected<br>Revenue | % Rate Increase |
|----------------|-------------------|---------------------------|----------------------------|-----------------|
| Residential    | 367,000           | \$288.41                  | \$105,846,106              | 190%            |
| Commercial     | 37,977            | \$4,371.81                | \$166,028,540              | 67%             |
| Total-All Uses |                   |                           | \$271,874,646              |                 |

*b. Multi-family versus single-family residential*

A potential question for further consideration is whether an amended Fuel/Energy Tax should mandate that energy distributors treat multi-family residential dwellings as residential dwellings for purposes of charging the Fuel/Energy Tax.

PEPCO charges commercial rates to “master metered” multi-family dwellings (condos and apartments). In essence this means that some residents of multi-family structures are paying a Fuel/Energy Tax rate that is 2.65 times higher than nearby residents of single-family structures. Residents of multi-family dwelling units have lower incomes than residents of single-family dwelling units, and therefore have less disposable income with which to absorb a tax increase.

**Timing**

Two possible issue for additional discussion are: (1) whether to introduce this increase gradually, and (2) the timing and wording of a sunset provision.

The Executive has proposed that the increase be effective on May 1, 2010, and that the entire proposed increase sunset at the end of FY12 (i.e. the increase would be effective for 26 months). Excise taxes are first and foremost tools for raising revenue. The revenue is needed now, and as such the Executive has proposed that the rate change be effective immediately.

Sudden increases in regulatory costs (e.g. taxes) often result in one party bearing the entire unforeseen burden. That burden might fall entirely on the landowner or entirely on the tenant, but in either case the parties might have allocated costs and risks differently in negotiating the lease if the possibility of a significant increase in a specific cost had been apparent at the time of the lease negotiation. While the economy can adjust to these changes over time, adjustments in the short-term are difficult.

Sunset provisions may provide clarity for parties who are negotiating long-term leases in FY11 and FY12 regarding their costs/risks in the short-term and in the long-term. Clarity and a

commitment to sunset certainly would aid in the negotiation of long-term leases that are to occur during the next two fiscal years.

An additional issue discussed in testimony was concern that consumption would change and that therefore revenues are not likely to meet projections. While revenues often exceed or fall short of projections, energy consumption is relatively inelastic and is unlikely to change significantly during the next 26 months as a result of this tax increase.

JS:tv jns\_energntax\_04\_2710

cc: Steve Farber  
Leslie Rubin

May 12, 2010

MEMORANDUM

TO: The Honorable Nancy Floreen, Chair  
Transportation, Infrastructure, Energy & Environment (T&E)  
Montgomery County Council

The Honorable Duchy Trachtenberg, Chair  
Management and Fiscal Policy (MFP)  
Montgomery County Council

FROM: Jacob Sesker, Planner Coordinator (301-650-5619)  
Vision Division

SUBJECT: Fuel/Energy Tax-Implications for Commercial Real Estate

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The proposed budget calls for a 100% increase in the Fuel/Energy Tax. The proposed 100% increase follows earlier proposals to increase the rates by 39.6% and then 63.7%.<sup>1</sup>

Much of the testimony submitted in response to these proposals has focused on the effect of the proposed increase on businesses and commercial properties. Bruce H. Lee submitted detailed testimony (April 20, 2010) in response to the Executive's penultimate proposal to increase by 63.7% the Fuel/Energy Tax rate. One example cited in his testimony is the 263,000 square foot BAE building in Aspen Hill. The total electricity bill for one year, including the Fuel/Energy Tax charged at current rates, is \$953,143 (\$3.624 per square foot).

The 63.7% increase in energy tax would increase the total amount spent on electricity by 5.77% to \$1,008,143. Mr. Lee's testimony was submitted prior to the proposal to increase the tax by 100%, but applying the proposed 100% increase to this building would increase total costs attributable to electricity (i.e. electricity plus electricity tax) from \$953,143 to \$1,039,486. This would mean that total electricity costs would increase from \$3.624 per square foot to \$3.952 per square foot, an increase of \$0.328.

That additional \$0.328 per square foot per year will come either from the tenant (in a triple net lease) or the property owner (in a full service lease) depending upon the terms of the lease agreement. Parties negotiating leases during the next two years will allocate this cost in the lease agreement.

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<sup>1</sup> In each of the three successive proposals, the Executive has proposed increasing the rates by the same percentage for all fuel types and for all end users, thereby maintaining the current ratio between the rates charged for distribution to non-residential users and the rates charged for distribution to residential users. The current tax rate for non-residential is 2.65 times higher than it is for residential users.

The BAE building can be used to illustrate the impact of the proposed tax on tenants and property owners based on two variables: lease type (triple net or full service) and lease commencement (current leases, or leases commencing before the sunset of the tax increase).

#### Current leases

- Triple net lease: In a triple net lease, *the tenant will absorb all of the increase* (\$0.328 per square foot per year).
- Full service lease: In a full service lease, *the property owner will absorb all of the increase* (\$0.328 per square foot per year).

#### Leases commencing before the sunset of the tax increase

- Triple net lease: The tenant would normally bear the cost of this tax, but prospective tenants will likely try to bargain for lower rents during the period in which this tax increase is effective. The property owner might need to decrease rents by up to \$0.328 per square foot during the period that the increased tax is in effect, or spread that cost out over the entire term of the lease.
- Full service lease: The property owner would normally bear the cost of this tax, and will try to negotiate for higher full service rents in order to reflect the increased cost. The property owner may set the rents higher during the period the increased tax is in effect, or might be willing to spread that cost out over the entire term of the lease.

In each scenario above, the proposed increase would be either reducing the rents accruing to the land or reducing the net operating income attributable to the improved space. However, given the fact that the increase as proposed would sunset at the end of FY 2012, it is unlikely that the tax increase will be reflected in lower land values. This is because the value of commercial property is largely based on the value of the income stream it produces, and most of the years of that income stream will be beyond the sunset of the tax increase.

There have also been questions about whether the proposed energy tax will negatively affect the County's ability to attract employers or compete with other jurisdictions for GSA tenants during the next two years. It would be difficult to estimate the effect of the proposed increase on the County's economic development activities, and doing so would require a thorough examination of all Montgomery County regulatory costs as well as all such costs for other neighboring jurisdictions. It is quite likely, however, that property owners seeking to attract a major bioscience facility or GSA tenant will ask the County for a subsidy to offset the tax increase.

Finally, Mr. Lee and others have submitted compelling testimony regarding the proposed tax's potential impact on the continuing viability of businesses, especially businesses that consume large amounts of energy (examples cited include restaurants, bioscience labs, and hospitals). To the extent that the current economic and fiscal climate—including this proposed tax increase—contribute to higher commercial vacancy rates, increased revenue from the Fuel/Energy Tax could be offset by reduced taxes from other sources (e.g. income tax and property tax).

cc: Mike Faden  
Steve Farber  
Leslie Rubin

**Demographic Data for Montgomery County Residents  
2008 Census Update Survey**

| <b>Montgomery County, MD<br/>2008 Census Update Survey</b>               | <b>Single-<br/>Family<br/>Detached</b> | <b>Townhouse</b> | <b>Garden<br/>Apartment</b> | <b>High-Rise</b> | <b>All Types</b> |
|--|--|------------------|-----------------------------|------------------|------------------|
| <b>Household Population</b>  |  |                  |                             |                  |                  |
|  | 540,605                                | 178,425          | 155,670                     | 64,500           | 939,200          |
| <b>Households by Structure Type</b>                                      |  |                  |                             |                  |                  |
|  | 177,365                                | 65,465           | 75,085                      | 39,085           | 357,000          |
| <b>% Total Households by Structure Type</b>                              |  |                  |                             |                  |                  |
|  | 49.7%                                  | 18.3%            | 21.0%                       | 10.9%            | 100.0%           |
| <b>Average Household Size</b>  |  |                  |                             |                  |                  |
|  | 3.05                                   | 2.73             | 2.07                        | 1.65             | 2.63             |
| <b>Tenure</b>  |  |                  |                             |                  |                  |
| % Rental   | 4.0%                                   | 11.0%            | 69.3%                       | 59.4%            | 25.1%            |
| <b>Average Monthly Costs</b>   |  |                  |                             |                  |                  |
| Homeowner (all)  | \$2,253                                | \$1,685          | \$1,417                     | \$1,586          | \$2,005          |
| Homeowner with Mortgage or Loan  | \$2,472                                | \$1,746          | \$1,536                     | \$2,033          | \$2,188          |
| Renter   | \$1,990                                | \$1,535          | \$1,179                     | \$1,419          | \$1,327          |
| <b>2007 Household Income Distribution</b>                                |  |                  |                             |                  |                  |
| % Under \$15,000   | 0.9%                                   | 1.3%             | 5.4%                        | 6.7%             | 2.6%             |
| % \$15,000 to \$29,999   | 2.4%                                   | 3.4%             | 10.9%                       | 6.9%             | 4.9%             |
| % \$30,000 to \$49,999   | 5.8%                                   | 12.7%            | 23.5%                       | 15.1%            | 11.8%            |
| % \$50,000 to \$69,999   | 8.0%                                   | 15.8%            | 22.1%                       | 20.1%            | 13.7%            |
| % \$70,000 to \$99,999   | 15.4%                                  | 24.7%            | 22.9%                       | 20.6%            | 19.2%            |
| % \$100,000 to 149,999   | 26.4%                                  | 28.1%            | 11.0%                       | 16.9%            | 22.5%            |
| % \$150,000 to 199,999   | 17.1%                                  | 8.3%             | 2.8%                        | 8.1%             | 11.5%            |
| % \$200,000+   | 24.0%                                  | 5.6%             | 1.4%                        | 5.5%             | 13.8%            |
| <b>2007 Median Household Income</b>                                      |  |                  |                             |                  |                  |
|  | \$130,400                              | \$89,800         | \$58,570                    | \$70,945         | \$96,475         |
| <b>% of Households Spending More Than 30% of Income on Housing Costs</b> |  |                  |                             |                  |                  |
| % Homeowners   | 16.8%                                  | 22.2%            | 29.4%                       | 18.4%            | 19.3%            |
| % Renters  | 26.9%                                  | 28.7%            | 34.9%                       | 35.7%            | 34.1%            |

Source: 2008 Census Update Survey; Research & Technology Center, Montgomery County Planning Dept., M-NCPPC 8/09

**Fuel/Energy Tax Data Tables  
April 29, 2010**

**Annual Tax Revenue, FY03-FY11 (\$ in millions)**

| Category        | FY03          | FY09           | FY10*          | FY11**         | FY03-FY11 Projected |             |
|-----------------|---------------|----------------|----------------|----------------|---------------------|-------------|
|                 |               |                |                |                | \$ Increase         | % Increase  |
| Residential     | \$7.9         | \$35.2         | \$36.0         | \$72.2         | \$64.3              | 714%        |
| Non-Residential | \$18.2        | \$94.1         | \$96.2         | \$192.8        | \$174.6             | 859%        |
| <b>Total</b>    | <b>\$26.1</b> | <b>\$129.3</b> | <b>\$132.2</b> | <b>\$265.0</b> | <b>\$238.9</b>      | <b>815%</b> |

\*Projected based on current tax rate

\*\* Projected based on the County Executive's April 22<sup>nd</sup> proposed tax increase

Source: Department of Finance, OLO Analysis

**Average Annual Tax Bill, FY10-FY11**

| Consumer        | FY10*   | FY11**  | \$ Increase | % Increase |
|-----------------|---------|---------|-------------|------------|
| Residential     | \$99    | \$197   | \$98        | 99%        |
| Non-Residential | \$2,618 | \$5,077 | \$2,459     | 94%        |

\*Projected

\*\*Projected based on the County Executive's April 22<sup>nd</sup> proposed tax increase

Source: Department of Finance, OLO Analysis

**Total Number of Consumers, FY10 and FY11**

| Category        | FY10    | FY11 Projected |
|-----------------|---------|----------------|
| Residential     | 362,000 | 367,000        |
| Non-Residential | 36,737  | 37,977         |

Source: Department of Finance

**Percentage of Total Tax Revenue  
by Category, FY10 and FY11**

| Category        | FY10*       | FY11*       |
|-----------------|-------------|-------------|
| Residential     | 27.2%       | 27.2%       |
| Non-Residential | 72.8%       | 72.8%       |
| <b>Total</b>    | <b>100%</b> | <b>100%</b> |

\*Projected

Source: Department of Finance – Based on the average of the prior four fiscal years

**Annual Tax Revenue, FY03-FY11 (\$ millions)**

| Category        | FY03          | FY04          | FY05           | FY06           | FY07           | FY08           | FY09           | FY10*          | FY11 Projected  |                   |                                 |
|-----------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-------------------|---------------------------------|
|                 |               |               |                |                |                |                |                |                | March 15 Budget | March 25 Proposal | April 22 <sup>nd</sup> Proposal |
| Residential     | \$7.9         | \$21.5        | \$32.0         | \$32.0         | \$32.3         | \$32.2         | \$35.2         | \$36.0         | \$50.4          | \$59.1            | \$72.2                          |
| Non-Residential | \$18.2        | \$52.1        | \$82.9         | \$85.6         | \$86.5         | \$86.1         | \$94.1         | \$96.2         | \$134.7         | \$157.9           | \$192.8                         |
| <b>Total</b>    | <b>\$26.1</b> | <b>\$73.6</b> | <b>\$114.9</b> | <b>\$117.7</b> | <b>\$118.8</b> | <b>\$118.3</b> | <b>\$129.3</b> | <b>\$132.2</b> | <b>\$185.1</b>  | <b>\$217.0</b>    | <b>\$265.0</b>                  |

\*Projected

Source: Department of Finance

**SCENARIOS FOR ALLOCATING REVENUE BETWEEN RESIDENTIAL AND NON-RESIDENTIAL CONSUMERS**

**Scenario #1 – County Executive’s Current Proposal (73/27 Allocation of Revenue)**

|                                      |                              |                           |
|--------------------------------------|------------------------------|---------------------------|
| Base Revenue (\$132.2 million)       | <b>Non-Residential (73%)</b> | <b>Residential (27%)</b>  |
| Additional Revenue (\$133 million)   | <b>Non-Residential (73%)</b> | <b>Residential (27%)</b>  |
| <b>Total Revenue - \$265 million</b> | <b>\$193 million (73%)</b>   | <b>\$72 million (27%)</b> |

**Scenario #3 – 60/40 (Non-Residential/Residential) Allocation of Additional Revenue**

|                                      |                              |                           |
|--------------------------------------|------------------------------|---------------------------|
| Base Revenue (\$132.2 million)       | <b>Non-Residential (73%)</b> | <b>Residential (27%)</b>  |
| Additional Revenue (\$133 million)   | <b>Non-Residential (60%)</b> | <b>Residential (40%)</b>  |
| <b>Total Revenue - \$265 million</b> | <b>\$176 million (66%)</b>   | <b>\$89 million (34%)</b> |

**Scenario #4 – 50/50 Allocation of Additional Revenue**

|                                      |                              |                            |
|--------------------------------------|------------------------------|----------------------------|
| Base Revenue (\$132.2 million)       | <b>Non-Residential (73%)</b> | <b>Residential (27%)</b>   |
| Additional Revenue (\$133 million)   | <b>Non-Residential (50%)</b> | <b>Residential (50%)</b>   |
| <b>Total Revenue - \$265 million</b> | <b>\$163 million (61%)</b>   | <b>\$102 million (39%)</b> |

Non-Residential =       Residential =

Source for all: Executive Branch data; OLO analysis

**AVERAGE ANNUAL TAX BILL FOR RESIDENTIAL AND NON-RESIDENTIAL CONSUMERS**

**Scenario #1 – 73/27 (Non-Residential/Residential)  
Allocation of Additional Revenue (Current Allocation)**

| <b>Rate Payer</b> | <b>FY10 Average Annual Tax Bill</b> | <b>Average Annual Tax Bill – Scenario #1*</b> | <b>\$ Change (%)</b> |
|-------------------|-------------------------------------|---|----------------------|
| Non-Residential   | \$2,618                             | \$5,077                                       | \$2,458 (94%)        |
| Residential       | \$99                                | \$197   | \$97 (98%)           |

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**Scenario #3 – 60/40 Allocation of Additional Revenue**

| <b>Rate Payer</b> | <b>FY10 Average Annual Tax Bill</b> | <b>Average Annual Tax Bill – Scenario #3*</b> | <b>\$ Change (%)</b> |
|-------------------|-------------------------------------|---|----------------------|
| Non-Residential   | \$2,618                             | \$4,634                                       | \$2,016 (77%)        |
| Residential       | \$99                                | \$243   | \$143 (144%)         |

**Scenario #4 – 50/50 Allocation of Additional Revenue**

| <b>Rate Payer</b> | <b>FY10 Average Annual Tax Bill</b> | <b>Average Annual Tax Bill – Scenario #4*</b> | <b>\$ Change (%)</b> |
|-------------------|-------------------------------------|---|----------------------|
| Non-Residential   | \$2,618                             | \$4,292                                       | \$1,673 (64%)        |
| Residential       | \$99                                | \$278   | \$178 (179%)         |

\* Projected

Source for all: Executive Branch data; OLO analysis

EXAMPLES OF MONTHLY TAX BILLS BASED ON ELECTRICITY USAGE

Scenario #1 – 73/27 (Non-Residential/Residential)  
Allocation of Additional Revenue (Current Allocation)

| Kilowatt Hours Used    | Current Monthly Tax Bill | Projected Monthly Tax Bill | \$ Increase | % Increase  |
|------------------------|--------------------------|----------------------------|-------------|-------------|
| <b>Non-Residential</b> |                          |                            |             | <b>100%</b> |
| 50,000                 | \$692                    | \$1,384                    | \$692       |             |
| 250,000                | \$3,461                  | \$6,922                    | \$3,461     |             |
| 500,000                | \$6,922                  | \$13,843                   | \$6,922     |             |
| 1,000,000              | \$13,843                 | \$27,687                   | \$13,843    |             |
| <b>Residential</b>     |                          |                            |             | <b>100%</b> |
| 500                    | \$3                      | \$5                        | \$3         |             |
| 1,000                  | \$5                      | \$10                       | \$5         |             |
| 2,500                  | \$13                     | \$26                       | \$13        |             |
| 5,000                  | \$26                     | \$52                       | \$26        |             |

Scenario #3 – 60/40 Allocation of Additional Revenue

| Kilowatt Hours Used    | Current Monthly Tax Bill | Projected Monthly Tax Bill | \$ Increase | % Increase  |
|------------------------|--------------------------|----------------------------|-------------|-------------|
| <b>Non-Residential</b> |                          |                            |             | <b>87%</b>  |
| 50,000                 | \$692                    | \$1,292                    | \$600       |             |
| 250,000                | \$3,461                  | \$6,462                    | \$3,001     |             |
| 500,000                | \$6,922                  | \$12,923                   | \$6,002     |             |
| 1,000,000              | \$13,843                 | \$25,847                   | \$12,003    |             |
| <b>Residential</b>     |                          |                            |             | <b>154%</b> |
| 500                    | \$3                      | \$7                        | \$4         |             |
| 1,000                  | \$5                      | \$13                       | \$8         |             |
| 2,500                  | \$13                     | \$33                       | \$20        |             |
| 5,000                  | \$26                     | \$66                       | \$40        |             |

Scenario #4 – 50/50 Allocation of Additional Revenue

| Kilowatt Hours Used    | Current Monthly Tax Bill | Projected Monthly Tax Bill | \$ Increase | % Increase  |
|------------------------|--------------------------|----------------------------|-------------|-------------|
| <b>Non-Residential</b> |                          |                            |             | <b>72%</b>  |
| 50,000                 | \$692                    | \$1,193                    | \$500       |             |
| 250,000                | \$3,461                  | \$5,963                    | \$2,502     |             |
| 500,000                | \$6,922                  | \$11,926                   | \$5,004     |             |
| 1,000,000              | \$13,843                 | \$23,852                   | \$10,009    |             |
| <b>Residential</b>     |                          |                            |             | <b>193%</b> |
| 500                    | \$3                      | \$8                        | \$5         |             |
| 1,000                  | \$5                      | \$15                       | \$10        |             |
| 2,500                  | \$13                     | \$38                       | \$25        |             |
| 5,000                  | \$26                     | \$76                       | \$50        |             |

Source: Executive Branch data; OLO analysis

**Fuel/Energy Tax as Percent of PEPCO Monthly Charges, by Scenario, FY11  
Based on PEPCO 2010 Summer Rates**

| Monthly Kilowatt Hours Used                                  | PEPCO Monthly Charges <sup>1</sup> | Scenario # (Non-R/R) | Monthly Fuel/Energy Tax | Fuel/Energy Tax as % of PEPCO Monthly Charges |
|--|------------------------------------|----------------------|-------------------------|---|
| <b>Residential - PEPCO Residential Service Rate Schedule</b> |                                    |                      |                         |   |
| 500  | \$77                               | #1 - 73/27           | \$5                     | 6.8%  |
|  |                                    | #3 - 60/40           | \$6                     | 8.4%  |
|  |                                    | #4 - 50/50           | \$7                     | 9.6%  |
| 1,000  | \$154                              | #1 - 73/27           | \$10                    | 6.8%  |
|  |                                    | #3 - 60/40           | \$13                    | 8.4%  |
|  |                                    | #4 - 50/50           | \$15                    | 9.6%  |
| 2,500  | \$384                              | #1 - 73/27           | \$26                    | 6.8%  |
|  |                                    | #3 - 60/40           | \$32                    | 8.4%  |
|  |                                    | #4 - 50/50           | \$37                    | 9.6%  |
| 5,000  | \$768                              | #1 - 73/27           | \$52                    | 6.8%  |
|  |                                    | #3 - 60/40           | \$64                    | 8.4%  |
|  |                                    | #4 - 50/50           | \$74                    | 9.6%  |
| <b>Non-Residential - PEPCO General Service Rate Schedule</b> |                                    |                      |                         |   |
| 50,000   | \$7,747                            | #1 - 73/27           | \$1,387                 | 17.9%   |
|  |                                    | #3 - 60/40           | \$1,268                 | 16.4%   |
|  |                                    | #4 - 50/50           | \$1,175                 | 15.2%   |
| 250,000  | \$38,735                           | #1 - 73/27           | \$6,937                 | 17.9%   |
|  |                                    | #3 - 60/40           | \$6,341                 | 16.4%   |
|  |                                    | #4 - 50/50           | \$5,873                 | 15.2%   |
| 500,000  | \$77,470                           | #1 - 73/27           | \$13,874                | 17.9%   |
|  |                                    | #3 - 60/40           | \$12,681                | 16.4%   |
|  |                                    | #4 - 50/50           | \$11,746                | 15.2%   |
| 1,000,000  | \$154,940                          | #1 - 73/27           | \$27,747                | 17.9%   |
|  |                                    | #3 - 60/40           | \$25,362                | 16.4%   |
|  |                                    | #4 - 50/50           | \$23,493                | 15.2%   |

Sources: Executive Branch data; PEPCO Residential Service and General Service Rate Schedules (updated March 1, 2010); and OLO Analysis

**Fuel/Energy Tax Rates, by Scenario\***

| Scenario # | Residential Tax Rate | Non-Residential Tax Rate |
|------------|----------------------|--------------------------|
| #1         | \$0.010470           | \$0.027747               |
| #3         | \$0.012874           | \$0.025362               |
| #4         | \$0.014758           | \$0.023493               |

\* These scenarios all assume raising a total of \$264,960,000 in fuel/energy tax revenue in FY11 and the tax rates are all calculated based on that revenue assumption.

Source: Executive Branch data

<sup>1</sup> "PEPCO Monthly Charges" is calculated by adding together the per kilowatt hour generation rate, transmission rate, and distribution rate (see below) and multiplying by the "Monthly Kilowatt Hours Used." "PEPCO Monthly Charges" does not include other charges such as PEPCO's distribution service Customer Charge, the Maryland Environmental Surcharge, or the EmPower Maryland Charge. Note: PEPCO currently has an application pending with the Maryland Public Service Commission to increase its distribution rates.

- Residential Service rates:
  - Generation Rate (June 1, 2010 – Sept. 30, 2010): \$0.11842
  - Distribution Rate (Summer): \$0.03163
  - Transmission Rate (Summer): \$0.00348
- Non-Residential – General Service rates:
  - Generation Rate (June 1, 2010 – Sept. 30, 2010): \$0.11833
  - Distribution Rate (Summer): \$0.03367
  - Transmission Rate (Summer): \$0.00294

## Fuel/Energy Tax Options for Electricity Usage in Master-Metered Residential Apartment Buildings

This page presents four options for charging master-metered apartment buildings within each revenue allocation scenario:

- **Option 1:** Keep master-metered apartment buildings in the non-residential rate class and charge them the **FY11 Non-Residential Rate**. The County Executive's current revenue assumptions are based on this option and Options 2-4 are compared to this option in the tables below.
- **Option 2:** Create a new rate class for master-metered apartment buildings and charge a rate **halfway between the FY11 non-residential rate and the FY11 residential rate**.
- **Option 3:** Create a new rate class for master-metered apartment buildings that charges them at their current rate – the **FY10 non-residential tax rate**.
- **Option 4:** Switch master-metered apartments to the residential rate class and charge them the **FY11 Residential Rate**.

### Scenario #1: Maintains current distribution of tax revenue (73/27 Allocation of Revenue)

| Rate Option                        | Tax Rate   | Annual Tax per Unit* | Diff. from CE Proposed Tax | Revenue (000s)** | Diff. from CE Proposed Revenue (000s) |
|------------------------------------|------------|----------------------|----------------------------|------------------|---------------------------------------|
| Option 1: FY11 NR (CE Proposal)    | \$0.027747 | \$166                | \$0                        | \$2,086          | \$0                                   |
| Option 2: Halfway Bet. FY11 R & NR | \$0.019108 | \$115                | -\$52                      | \$1,436          | -\$649                                |
| Option 3: FY10 NR (Current Rate)   | \$0.013843 | \$83                 | -\$83                      | \$1,041          | -\$1,045                              |
| Option 4: FY11 R                   | \$0.010470 | \$63                 | -\$104                     | \$787            | -\$1,299                              |

### Scenario #3: 60/40 (Non-Residential/Residential) Allocation of Revenue

| Rate Option                        | Tax Rate   | Annual Tax per Unit* | Diff. from CE Proposed Tax | Revenue (000s)** | Diff. from CE Proposed Revenue (000s) |
|------------------------------------|------------|----------------------|----------------------------|------------------|---------------------------------------|
| Option 1: FY11 NR (CE Proposal)    | \$0.025362 | \$152                | \$0                        | \$1,907          | \$0                                   |
| Option 2: Halfway Bet. FY11 R & NR | \$0.019118 | \$115                | -\$37                      | \$1,437          | -\$469                                |
| Option 3: FY10 NR (Current Rate)   | \$0.013843 | \$83                 | -\$69                      | \$1,041          | -\$866                                |
| Option 4: FY11 R                   | \$0.012875 | \$77                 | -\$75                      | \$968            | -\$939                                |

### Scenario #4: 50/50 Allocation of Revenue

| Rate Option                        | Tax Rate   | Annual Tax per Unit* | Diff. from CE Proposed Tax | Revenue (000s)** | Diff. from CE Proposed Revenue (000s) |
|------------------------------------|------------|----------------------|----------------------------|------------------|---------------------------------------|
| Option 1: FY11 NR (CE Proposal)    | \$0.023493 | \$141                | \$0                        | \$1,766          | \$0                                   |
| Option 2: Halfway Bet. FY11 R & NR | \$0.019126 | \$115                | -\$26                      | \$1,438          | -\$328                                |
| Option 3: FY10 NR (Current Rate)   | \$0.013843 | \$83                 | -\$58                      | \$1,041          | -\$725                                |
| Option 4: FY11 R                   | \$0.014758 | \$89                 | -\$52                      | \$1,109          | -\$657                                |

\* The annual tax charged to each unit in a master-metered apartment building is estimated based on 500 kwh of electricity used per month. The estimate was provided by the Montgomery County Department of Environmental Protection.

\*\*The estimated FY11 revenue from master-metered apartment buildings is calculated by multiplying the per unit tax by 12,529, which is an estimate of the total number of master-metered housing units, supplied by the Department of Finance. Master-metered housing units include all high-rise and low-rise units in the County built before 1978.

Source: Executive branch data; OLO analysis