



STATE OF MARYLAND  
PUBLIC SERVICE COMMISSION

ORDER NO. 87417

IN THE MATTER OF THE APPLICATION	*	BEFORE THE
OF SOUTHERN MARYLAND ELECTRIC		PUBLIC SERVICE COMMISSION
COOPERATIVE, INC. FOR AUTHORITY	*	OF MARYLAND
TO REVISE ITS RATES AND CHARGES	*	
FOR ELECTRIC SERVICE AND CERTAIN	*	
RATE DESIGN CHANGES	*	CASE NO. 9396

February 11, 2016

PROPOSED ORDER OF PUBLIC UTILITY LAW JUDGE

**Appearances:**

Mark A. MacDougall and Theodore F. Duver, for Southern Maryland Electric Cooperative, Inc.

Sondra S. McLemore and Brent A. Bolea, for the Maryland Energy Administration.

James K. McGee, for the Maryland, District of Columbia, and Virginia Solar Energy Industries Association.

Annette B. Garofalo and Peter A. Woolson, for the Staff of the Public Service Commission of Maryland.

Ronald Herzfeld and Joyce R. Lombardi, for the Office of People's Counsel.

**I. BACKGROUND**

On September 18, 2015, Southern Maryland Electric Cooperative, Inc. ("SMECO" or "the Cooperative") filed an application for an increase in its base rates pursuant to §§ 4-203 and 4-204 of the Public Utilities Article ("PUA") of the *Annotated Code of Maryland*. SMECO's application and its accompanying

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testimony requested authority for an increase in operating revenues of \$19,171,530. The Cooperative's request was based principally upon SMECO's growth and additional costs incurred since its last rate case five years ago, the improvements in the distribution system's reliability and resiliency, and the investment in the Southern Maryland Reliability Project.

SMECO's application utilized a 12-month test period ending September 30, 2015. Without being granted the requested relief, the Cooperative indicated that its Debt Service Coverage ("DSC") ratio, on an adjusted basis, was 1.57. The proposed effective date for the increase was October 18, 2015.

The Cooperative's application included the direct testimonies of Austin J. Slater, Jr., SMECO's President and Chief Executive Officer; William A. Collet, President of Collet & Associates, LLC; Dr. H. Edwin Overcast, Director, Management Consulting of Black & Veatch; Sonja M. Cox, SMECO's Senior Vice President of Financial, Economic, and Employee Services and Chief Financial Officer; Kenneth M. Capps, Senior Vice President of Engineering and Operations and Chief Operating Officer; Eugene W. Bradford, Vice President of Rates and Energy Procurement Manager; and Timothy Hennessy, Principle Consultant for DNV GL.

On September 22, 2015, by Order No. 87170, the Commission suspended the proposed rates for a period of not more than 150 days and delegated the case to the Public Utility Law Judge Division.

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On October 9, 2015, the Maryland Energy Administration ("MEA"), and the Maryland, District of Columbia, and Virginia Solar Energy Industries Association ("MDV-SEIA") and The Solar Research Institute ("SRI") (collectively "MDV-SEIA/SRI") filed Petitions to Intervene ("Petition").

On October 13, 2015, a pre-hearing conference was held and a procedural schedule was agreed to by the parties. The Cooperative opposed MEA's intervention and, after considering the Petition and both parties' arguments, MEA's Petition was granted. Consideration of MDV-SEIA/SRI's intervention was deferred because SMECO had not received the Petition prior to the pre-hearing conference. On October 22, 2015, after reviewing subsequent filings from SMECO and MDV-SEIA/SRI, a Ruling on MDV-SEIA and SRI's Petition to Intervene was issued which granted MDV-SEIA's intervention, but denied SRI's intervention.

On October 30, 2015, SMECO filed supplemental direct testimony to reflect actual data for the test year ending September 30, 2015; however, the Cooperative did not seek any additional revenue based on the actual data. The filing included the supplemental direct testimonies and exhibits of Dr. Overcast, Ms. Cox and Mr. Bradford.<sup>1</sup>

On November 20, 2015, OPC, Staff and MDV-SEIA all filed testimony.<sup>2</sup> Specifically, MDV-SEIA filed the direct testimony of

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<sup>1</sup> On November 3, 2015, SMECO filed a corrected version of Dr. Overcast's Supplemental Direct Testimony and withdrew Mr. Bradford's Supplemental Direct Testimony and Exhibits.

<sup>2</sup> MEA did not file any testimony in this proceeding.

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Nathan Phelps, Program Manager of Distributed Generation Regulatory Policy for Vote Solar; OPC filed the direct testimony of David E. Peterson, a Senior Consultant with Chesapeake Regulatory Consultants, Inc., and Staff filed the direct testimonies and exhibits of Loubens Blaise, C. Shelley Norman, Ph.D., Caroline W. Wanjiru, and James R. Currier. OPC recommended an increase of \$15,885,790 and Staff recommended an increase of \$13,221,725. MDV-SEIA did not propose any adjustments to SMECO's requested revenue requirement, but opposed the increase to the facilities charge.

On December 7, 2015, SMECO filed the rebuttal testimonies and exhibits of Mr. Slater, Ms. Cox, Dr. Overcast and Mr. Collet; however, the Cooperative did not modify its revenue request.

On December 21, 2015, OPC filed the surrebuttal testimony of Mr. Peterson. On December 22, 2015, Staff filed the surrebuttal testimonies and exhibits of Mr. Blaise, Dr. Norman, and Mr. Currier, and MDV-SEIA filed the surrebuttal testimony of Mr. Phelps. OPC increased its recommended revenue increase to \$16,180,541, but Staff did not alter its initial recommendation.

On December 30, 2015, OPC, on behalf of SMECO and Staff (collectively "the Settling Parties"), requested that the procedural schedule be suspended because the Settling Parties had reached a settlement agreement on the major issues. MEA did not have a position on the settlement and MDV-SEIA was still evaluating

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the terms of the settlement. On December 31, 2015, the procedural schedule was suspended.

On January 21, 2016, SMECO filed a Joint Motion for Approval of Stipulation and Settlement ("the Settlement") and the supporting testimony of Mr. Slater.<sup>3</sup> Additionally, Staff filed the joint testimony of Phillip E. VanderHeyden and Jamie A. Smith, and OPC filed the testimony of Mr. Peterson, both in support of the Settlement.

On January 26, 2016, a public comment hearing was held at SMECO's headquarters in Hughesville, Maryland, and no members of the public attended. Additionally, no written comments were received regarding this proceeding.

On January 27, 2016, an evidentiary hearing was held during which all of the pre-filed testimony and exhibits were entered into the record by stipulation without cross-examination. Additionally, MEA and MDV-SEIA confirmed that neither party took a position on the Settlement. During the proceeding, the parties requested that the appeal period be reduced from 30 days to 14 days.

No briefs were filed in this matter.

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<sup>3</sup> SMECO Ex. 1, Direct Testimony in Support of Stipulation and Settlement Agreement of Austin J. Slater, Ex. (AJS-SA)-1 ("the Settlement"). The Settlement and the Settlement Class Revenues (Ex. A to the Settlement) are attached hereto as Appendix A. The Settlement also included red-lined tariff sheets (Ex. B) that reflected the new rates resulting from the Settlement.

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II. SUMMARY OF THE SETTLEMENT

The Settlement provided a brief procedural background, including references to SMECO's application and the increase it sought, the direct, rebuttal and surrebuttal testimonies filed by the parties, that discovery had been conducted and the application had been thoroughly analyzed by all parties.<sup>4</sup> The Settling Parties agreed that an increase of \$17,300,000 in SMECO's electric distribution rates was appropriate.<sup>5</sup> Additionally, the Settling Parties agreed that the monthly residential facilities charge would be increased from \$8.60 per month to \$9.50 per month and would not be modified for a period of 30 months.<sup>6</sup> This resulted in a 10.5% increase to the monthly residential facility charge, and the facilities charge for the GS Non-Demand, GS Demand and LP rate classes also received a 10.5% increase, while the Transmission and Naval Surface Warfare Center rate classes received no increase.<sup>7</sup>

The Settlement also provided the distribution of the \$17.3 million increase across its customer classes, resulting in a 4.0% overall increase, with the residential class receiving a 4.6% increase and all other rate classes receiving a 3.0% increase.<sup>8</sup> The Settlement included revised tariffs with an effective date of March 1, 2016.<sup>9</sup>

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<sup>4</sup> The Settlement at 1-3.

<sup>5</sup> *Id.* at 5.

<sup>6</sup> *Id.*

<sup>7</sup> *Id.* at Ex. A.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.* at Ex. B.

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Finally, the Settlement included standard settlement language, including statements that the Settlement was conditioned upon the Commission's acceptance of the terms and conditions, without modification; that it represented a compromise of divergent positions in order to end litigation; that it had no precedential value; that all rights were reserved in any future proceedings to take any position regarding issues addressed in the application or testimony; that all parties waived the right to appeal and seek judicial review; and that all discussions that produced the Settlement were confidential.<sup>10</sup>

III. SUMMARY OF SUPPORTING TESTIMONY

A. SMECO

On behalf of SMECO, Mr. Slater discussed the reasonableness of the Settlement and noted that the \$17.3 million increase was approximately \$1.9 million less than what SMECO requested in its initial application.<sup>11</sup> He testified that the agreed upon increase resulted in just and reasonable rates and "allows SMECO an opportunity to meet its financial obligations under existing loan agreements and to continue to make the necessary investments in its electric system to the benefit of all of its customer-members."<sup>12</sup> Mr. Slater explained that the \$17.3 million increase will be

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<sup>10</sup> *Id.* at 3-5.

<sup>11</sup> SMECO Ex. 1 at 2.

<sup>12</sup> *Id.* at 3.

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mitigated by lower electricity supply costs.<sup>13</sup> Specifically, he stated that SMECO expects that the average overall customer electric bill will be lower than bills for the 2014 summer due to lower Standard Offer Service rates.<sup>14</sup> While SMECO's total distribution rate increase will be \$9.97 per month as a result of the Settlement, Mr. Slater explained, "residential customers will still see an average bill reduction of \$18.41 compared to August 2014."<sup>15</sup>

He also discussed the reasonableness of the facilities charge increase, which has not been increased in over 20 years. Mr. Slater testified that the increase was justified and consistent with past Commission decisions, and referenced the Commission's recent approval of a 12.5% facilities charge increase for Choptank Electric Cooperative, Inc. ("Choptank").<sup>16</sup>

**B. OPC**

Mr. Peterson summarized the main points of SMECO's application, the issues he raised in his pre-filed testimonies and discussed the Settlement's main points. He indicated that the Settlement was a reasonable compromise and noted that litigating the case represented significant risk to OPC.<sup>17</sup> In regards to the

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<sup>13</sup> *Id.* at 4.

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> *Id.* at 5-6; see *In the Matter of the Application of Choptank Elec. Coop., Inc. for Authority to Revise Its Rates and Charges for Electric Service*, Case No. 9368, Order No. 86994, slip. op. at 11 (dated May 31, 2015).

<sup>17</sup> OPC Ex. 4, Supplemental Testimony of David E. Peterson at 3.



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facilities charge increase, Mr. Peterson explained that his analysis indicated an increase to \$9.31 was warranted; however, he stated that the \$9.50 facilities charge was just and reasonable based upon the \$17.3 million increase and that the charge will not be increased for the next 30 months.<sup>18</sup>

**C. Staff**

Messrs. VanderHeyden and Smith restated the case's background noting the various parties' positions on the main issues. They testified that the Settlement was both reasonable and in the public interest because it represented a compromise among the Settling Parties' positions that had been "wide-ranging."<sup>19</sup> Staff explained that the \$17.3 million increase was approximately the mid-point between Staff's recommendation of \$13.2 million, the lowest in the case, and the \$21.2 million set forth in SMECO's supplemental direct testimony, the highest revenue figure referenced in this proceeding.<sup>20</sup>

Messrs. VanderHeyden and Smith testified that the \$17.3 million increase and the increase in the facilities charge to \$9.50 per month (fixed for 30 months) were both within the range of

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<sup>18</sup> *Id.* at 4.

<sup>19</sup> Staff Ex. 1, Settlement Testimony of Phillip E. VanderHeyden & Jamie A. Smith at 3-4.

<sup>20</sup> *Id.* at 4. While SMECO did not alter its initial \$19.2 million revenue request, the Cooperative's actual data indicated a revenue deficiency of approximately \$21.2 million. See SMECO Ex. 10, Prepared Supplemental Direct Testimony of Sonja M. Cox, at Exs. (SMC-S)-8 and (SMC-S)-9, dated October 30, 2015.

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reasonableness.<sup>21</sup> They noted that the increases were also tempered by the fact that this was SMECO's first increase in five years.<sup>22</sup>

IV. DISCUSSION AND FINDINGS

In order to approve a settlement, the Commission has historically required the settlement to be just and reasonable, and in the public interest. For example, in approving a settlement in a Delmarva Power & Light Company ("DPL") rate case, the Commission stated, "We approve the Settlement because we find that, under the circumstances and on the record before us, the unanimous agreement of the parties will result in just and reasonable rates for Delmarva Power & Light Company ... and its customers and is consistent with the public interest."<sup>23</sup> The Commission further stated:

The Commission has in the past considered and approved settlements proposed by adverse parties representing divergent interests in a proceeding. We acknowledge that delicate compromises are often required in order for parties to achieve an uncontested settlement. Historically, a settlement that is submitted by parties who normally have adverse interests is an indication that the overall agreement reached is a reasonable one. However, the mere fact of a settlement does not end our inquiry - we must review any settlement carefully to ensure that the outcome, and the

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<sup>21</sup> Staff Ex. 1 at 4.

<sup>22</sup> *Id.*

<sup>23</sup> *Re Delmarva Power and Light Co.*, 102 Md. P.S.C. 236, 237 (2011) (footnote omitted).

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resulting rates, are indeed just and reasonable.<sup>24</sup>

The Commission has also considered the avoidance of time and litigation costs associated with rate case proceedings as factors to consider when evaluating settlements.<sup>25</sup>

Finally, the rates resulting from the settlement must be found to be just and reasonable, both for the utility and its customers, and cannot be "an undue burden to one customer class more than another."<sup>26</sup> PUA § 4-101 defines "just and reasonable rate" as:

a rate that (1) does not violate any provision of this article; (2) fully considers and is consistent with the public good; and (3) except for rates of a common carrier, will result in an operating income to the public service company that yields, after reasonable deduction for depreciation and other necessary and proper expenses and reserves, a reasonable return on the fair-value of the public service company's property used and useful in providing service to the public.

There were not a significant number of issues raised in this proceeding, but the issues that were contested were done so vigorously. Namely, the revenue requirement, the increase to the residential facilities charge, certain accounting adjustments, the

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<sup>24</sup> *Id.* at 239-240.

<sup>25</sup> *In Re Washington Gas Light Co.*, 84 Md. P.S.C. 274, 277 (1993), citing *Re: Potomac Elec. Power Co.*, 80 Md. P.S.C. 61, 64 (1989).

<sup>26</sup> *Re Baltimore Gas and Elec. Co.*, 105 Md. P.S.C. 596, 605 (2014), citing *Re Potomac Elec. Power Co.*, 80 Md. P.S.C. at 64.

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Cooperative's reliance upon a minimum system cost of service study, and its 1.85 DSC request were contested. However, the Settlement only specifically addressed the revenue requirement and the facilities charge.

As previously noted, SMECO's application sought an increase of \$19,171,530 in its electric distribution rates which constituted a 4.45% overall increase to the Cooperative's revenues. OPC's final recommendation was \$16,180,541 (3.75%) and Staff's recommendation was \$13,221,725 (3.07%). The other main issue was the increase to the existing \$8.60 monthly residential facilities charge, with SMECO recommending a two-step increase over a two-year period to \$13.44, a 56.8% increase. Both OPC and Staff recommended increases to the facilities charge as well, but these were significantly lower, with OPC recommending an increase to \$9.31 (8.25%) and Staff recommending an increase to \$9.61 (11.74%).

In reviewing the Settlement in comparison to the Settling Parties' litigated positions, it is evident that the Settlement represents significant compromise. The Settling Parties all agreed that SMECO was entitled to an increase but differed on the amount and structure by which the Cooperative should recover the increase. There was a large discrepancy in the parties' recommended revenue requirements, with Staff's recommended figure approximately 31% (almost \$6 million) less than SMECO's request. The agreed upon \$17.3 million increase is just under the mid-point (\$17.65 million) of SMECO's \$19.2 million request and OPC's

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\$16.1 million recommendation, which demonstrates all of the Settling Parties' willingness to make concessions.

The other issue addressed by the Settlement was the proposed \$4.84 facilities charge increase for residential customers, which was opposed by OPC, Staff and MDV-SEIA. There was an approximate 48.5% difference between OPC's recommendation (\$9.31) and SMECO's request (\$13.44). The Settlement adopts a facilities charge lower than Staff's \$9.60 proposal and, more importantly, the agreed upon \$9.50 residential facility charge will remain unchanged for 30 months. Comparing the agreed upon figure and its accompanying freeze to the Cooperative's position on this issue is further and substantial evidence of compromise among the Settling Parties.

I recognize that the facilities charge is being increased by 10.5%, which appears on its face to be a significant rise. However, in addition to the compromise reflected in the Settlement, two other factors weigh heavily in finding that the increase is just and reasonable. First, as noted by Mr. Slater, the Commission recently approved a 12.5% increase (from \$10.00 to \$11.25) in Choptank's residential customer charge.<sup>27</sup> The Commission prefaced its finding in that case by stating, "In recent years we have limited or declined increases to customer charges as part of our effort to promote energy efficiency and conservation."<sup>28</sup> The Commission concluded that a \$1.25 increase to Choptank's

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<sup>27</sup> SMECO Ex. 1 at 5; see Case No. 9368, Order 86994, *slip op.* at 11.

<sup>28</sup> Case No. 9368, Order 86994, *slip op.* at 11.

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monthly customer charge "[wa]s more consistent with the principle of gradualism, ..." and "more consistent with Commission precedent and Commission policy goals."<sup>29</sup> Thus, in terms of both the percentage and dollar figure increases, the Settlement's facility charge is less than Choptank's recently approved increase.

Next, SMECO's current \$8.60 residential facility charge has not changed in over two decades,<sup>30</sup> despite rate cases filed within that timeframe. Similar to the revenue requirement, the Settling Parties all agreed that some level of increase in the facilities charge was necessary, with the final figure landing squarely between OPC's and Staff's recommendations and significantly below SMECO's proposed two-step increase. While I am not asserting that SMECO's facilities charge should be increased solely because Choptank's customer charge was recently increased, it does serve as a measurement to which the \$0.90 increase in this case can be compared in an effort to determine if SMECO's increase is just and reasonable. Therefore, for the reasons referenced, I believe a \$0.90 increase to the residential facilities charge to be just and reasonable.

Having considered the record in this proceeding, including all of the testimony and exhibits, and the terms and conditions of the Settlement, as well as ratemaking principles and Commission precedent, I find the Joint Motion for Approval of Stipulation and Settlement, as submitted, should be accepted without change. I

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<sup>29</sup> *Id.*

<sup>30</sup> SMECO Ex. 1 at 5.

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find the Settlement to be reasonable, and that the terms and final rates are within a range of reasonableness had the agreed upon issues been fully litigated. As such, I find that the resulting rates will not induce rate shock, are just and reasonable and will not unduly burden any one class of customers. I also find the Settlement to be consistent with Commission precedent. Furthermore, I find approval of the Settlement to be in the public interest, as lengthy evidentiary hearings, briefs and potential appeals will be avoided, thereby saving all parties' time, effort, and further litigation costs. Finally, I find that given my approval of the Settlement, reducing the appeal period from 30 days to 14 days is appropriate.

IT IS, THEREFORE, this 11th day of February, in the year Two Thousand Sixteen,

ORDERED: (1) That the Application filed by Southern Maryland Electric Cooperative, Inc. on September 18, 2015 is hereby denied.

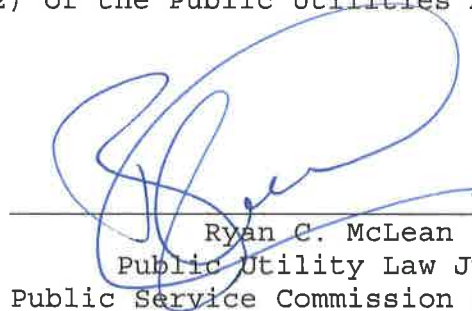
(2) That the Joint Motion for Approval of Stipulation and Settlement is hereby granted, and the Stipulation and Settlement Agreement, attached hereto and incorporated by reference, is approved without modification.

(3) That Southern Maryland Electric Cooperative, Inc. is hereby authorized, pursuant to § 4-204 of the Public Utilities Article, *Annotated Code of Maryland*, to file tariffs that shall increase electric distribution rates by no more than \$17.3 million for service rendered on or after March 1, 2016.

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(4) That Southern Maryland Electric Cooperative, Inc. shall file clean tariff pages consistent with this Proposed Order of Public Utility Law Judge, subject to the acceptance by the Commission, with an effective date of March 1, 2016.

(5) That this Proposed Order will become a final order of the Commission on February 26, 2016, unless before that date an appeal is noted with the Commission by any party to this proceeding as provided in Section 3-113(d)(2) of the Public Utilities Article, or the Commission modifies or reverses the Proposed Order or initiates further proceedings in this matter as provided in Section 3-114(c)(2) of the Public Utilities Article.



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Ryan C. McLean  
Public Utility Law Judge  
Public Service Commission of Maryland



**BEFORE THE  
PUBLIC SERVICE COMMISSION OF MARYLAND**

<b>IN THE MATTER OF THE APPLICATION</b>	*	
<b>OF SOUTHERN MARYLAND ELECTRIC</b>	*	
<b>COOPERATIVE, INC. FOR AUTHORITY TO</b>	*	<b>CASE NO. 9396</b>
<b>REVISE ITS RATES AND CHARGES FOR</b>	*	
<b>ELECTRIC SERVICE AND FOR CERTAIN</b>	*	
<b>RATE DESIGN CHANGES</b>	*	

\*   \*   \*   \*   \*   \*   \*   \*   \*   \*   \*   \*

**STIPULATION AND SETTLEMENT AGREEMENT**

This Stipulation and Settlement Agreement (“Settlement” or “Settlement Agreement”) is entered into by and between Southern Maryland Electric Cooperative, Inc. (“SMECO”), the Staff of the Public Service Commission of Maryland (“Staff”), and the Maryland Office of the People’s Counsel (“OPC”) (collectively, the “Settling Parties”).<sup>1</sup>

WHEREAS, SMECO filed an Application for Authority to Revise its Rates and Charges for Electric Service and for Certain Rate Design Changes on September 18, 2015 (the “Application”);

WHEREAS, the Application contained the Direct Testimony of Austin J. Slater, Jr., William A. Collet, H. Edwin Overcast, Sonja M. Cox, Kenneth M. Capps, Eugene W. Bradford, and Timothy P. Hennessy in support of the Application;

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<sup>1</sup> The Maryland Energy Administration (“MEA”) has indicated that the settlement process should continue without its involvement. The Maryland, District of Columbia, Virginia Solar Energy Industries Association (“MDV-SEIA”) does not oppose the Settlement Agreement.

WHEREAS, through its Application, SMECO requested that the Commission approve the proposed rate increase and authorize the rates to be effective on October 18, 2015 or as soon thereafter as is practicable;

WHEREAS, through its Application, SMECO sought authority to increase its electric distribution rates by \$19,171,530;

WHEREAS, on September 22, 2015, by Order No. 87170, the Commission suspended the proposed rates for a period of not more than 150 days from October 15, 2015, and delegated the matter to the Public Utility Law Judge Division;

WHEREAS, on October 13, 2015, the Public Utility Law Judge convened a pre-hearing conference and, on October 15, 2015, issued Notice of Proposed Schedule;

WHEREAS, on October 30, 2015, consistent with the Notice of Procedural Schedule, SMECO updated actuals of test period data but maintained its request for an increase of \$19,171,530;

WHEREAS, on October 9, 2015 the Maryland Energy Administration (“MEA”) filed its petition to intervene, which was granted by the Public Utility Law Judge at the October 13, 2015 Pre-hearing Conference;

WHEREAS, on October 9, 2015, the Maryland, District of Columbia, and Virginia Solar Energy Industries Association (“MDV-SEIA”) and the Solar Research Institute filed a petition to intervene, such petition being granted by the Public Utility Law Judge as to MDV-SEIA and denied as to the Solar Research Institute;

WHEREAS, on November 20, 2015, Direct Testimony was filed by: Caroline W. Wanjiru, C. Shelley Norman, James R. Currier and Loubens Blaise for Staff; by David E. Peterson for OPC; and by Nathan Phelps for MDV-SEIA;

WHEREAS, on December 7, 2015, in response to the Direct Testimonies filed, SMECO filed Rebuttal Testimony by Austin J. Slater, Jr., William A. Collet, H. Edwin Overcast, and Sonja M. Cox;

WHEREAS, on December 22, 2015, in response to the Rebuttal Testimonies of SMECO, Surrebuttal Testimony was filed by: C. Shelley Norman, James R. Currier and Loubens Blaise for Staff; by David E. Peterson for OPC; and by Nathan Phelps for MDV-SEIA;

WHEREAS, extensive discovery has been conducted and SMECO's Application has been thoroughly analyzed by representatives of Staff, OPC, MEA, and MDV-SEIA and, as a result of and on the basis of that analysis, the Settling Parties desire to settle this matter on the terms and conditions set forth herein:

NOW, THEREFORE, the Settling Parties agree to the following full settlement and compromise to be effective as of the date the instant Settlement and Stipulation is fully executed and filed with the Commission:

FIRST, the Settling Parties agree that this Settlement Agreement is expressly conditioned upon the Commission's acceptance of all of its terms, without change to any term or condition.

SECOND, the Settling Parties agree that this Settlement Agreement constitutes a full settlement and compromise of SMECO's Application as updated.

THIRD, the Settling Parties agree that this Settlement Agreement represents a compromise of divergent positions in order to end litigation and that, except as expressly stated herein, no party to the Settlement Agreement shall be deemed to have approved, accepted, or consented to any principle underlying or supposed to underlie any of the

matters provided for in this Settlement or in the updated Application, nor shall approval of this Settlement constitute in any respect a determination by the Commission as to the merits of any of the contentions or allegations which might be made by any of the parties to the Settlement Agreement in the absence of the Settlement Agreement.

FOURTH, all Settling Parties reserve all rights to take any position concerning any issue addressed in this Settlement or raised by the application or any responsive testimony discussed above in any future proceedings.

FIFTH, the Settling Parties stipulate not to seek judicial review of a Commission Order approving the Settlement as filed without modification and stipulate that they will not take any action before the Commission or a court in derogation of this Settlement.

SIXTH, the various provisions of this Settlement are not severable. None of the provisions shall become operative unless and until the Commission issues an Order approving the Settlement without modification or condition. If any portion of this Settlement is modified, conditioned, or rejected by the Commission or on appeal from approval by the Commission, the Settlement shall be considered null and void. If the Settlement is rendered null and void by operation of this paragraph, the Settling Parties agree to immediately enter into good faith negotiations to reach a new settlement. If any future law or regulation is enacted that any Settling Party believes, in good faith, has a material impact on the rights and obligations arising under this Settlement, the Settling Parties shall meet to discuss what action, if any, should be taken.

SEVENTH, the discussions that produced this Settlement have been conducted on the understanding that all offers of settlement and discussions relating thereto are and shall be privileged and confidential, shall be without prejudice to the position of any

party or participant presenting any such offer or participating in any such discussions, and are not to be used in any manner in connection with this proceeding or otherwise. If the Commission does not approve this Settlement without modification or condition, the Settlement shall be deemed withdrawn and shall not constitute any part of the record in this proceeding or be used for any other purpose whatsoever.

EIGHTH, the Settling Parties agree that an increase of \$17,300,000 in SMECO's electric distribution rates is appropriate for the purposes of this Settlement.

NINTH, the Settling Parties agree that the increase in SMECO's base rate revenues specified in the preceding paragraph shall be accomplished in accordance with the revenue distribution set forth on Exhibit A to this Settlement Agreement.

TENTH, SMECO's monthly residential facilities charge shall be increased from \$8.60 per month to \$9.50 per month, with such charge remaining in effect and not subject to further increase or modification for a period of thirty (30) months from the effective date of the rates set pursuant to this Settlement Agreement.


ELEVENTH, SMECO's facilities charge for the remaining rate schedules will increase proportionately to the increase agreed to for the residential class. SMECO's facilities charges for all other rate schedules are set forth in the Case 9396 Settlement Facilities Charge table contained in Exhibit A as well as the tariff sheets contained in Exhibit B, attached hereto.

TWELFTH, the Parties will provide testimony at hearing in support of the Settlement. The Parties agree also to the admission of all pre-filed testimony, exhibits and any attachments filed on or before December 22, 2015.

WHEREFORE, the Settling Parties have, by their respective counsel, entered into this Stipulation and Settlement Agreement and do hereby respectfully request that the Public Service Commission of Maryland enter an order approving this Stipulation and Settlement Agreement and authorizing SMECO to file tariff sheets which reflect an increase in rates effective with bills rendered on or after March 1, 2016, or as soon as practicable thereafter, in the amounts set forth in Exhibit B attached hereto.

Respectfully submitted,

SOUTHERN MARYLAND ELECTRIC  
COOPERATIVE, INC.

By:   
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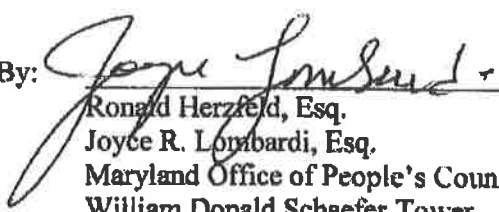
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# EXHIBIT A

Southern Maryland Electric Coop.  
Case 9396 Settlement Class Revenues

	Total	Residential (101, 102)	GS Non-Demand (401, 402, 411)	GS Demand (403, 404, 405)	LP (501, 502, 503)	Transmission (701, 702)	NSWC (710)	Street Lighting STLIGHT	Area Lighting AL
<b>Current Revenues</b>									
Total	\$ 430,833,943	\$ 281,621,400 74.09%	\$ 15,482,614 2.70%	\$ 109,072,248 18.94%	\$ 18,034,061 3.12%	\$ 236,382 0.04%	\$ 2,873,741 0.50%	\$ 2,474,631 0.43%	\$ 1,038,865 0.18%
OPC Increase Allocation									
<b>Settlement Increase</b>	\$ 17,300,000	\$ 12,816,844 4.6%	\$ 467,472 3.0%	\$ 3,276,789 3.0%	\$ 540,238 3.0%	\$ 7,090 3.0%	\$ 86,030 3.0%	\$ 74,308 3.0%	\$ 31,229 3.0%
Percent Increase	4.0%								

Case 9396 Settlement Facilities Charge

	Residential	GS Non-Demand	GS Demand	LP	Transmission	NSWC
Current	\$ 8.60	\$ 16.09	\$ 16.09	\$ 40.27	\$ 939.00	\$ 939.00
		\$ 23.01	\$ 23.01	\$ 44.99		
Proposed	\$ 9.50	\$ 17.78	\$ 17.78	\$ 44.50	\$ 939.00	\$ 939.00
		\$ 25.43	\$ 25.43	\$ 49.71		
Increase	10.5%	10.5%	10.5%	10.5%	0.0%	0.0%