SB 341

Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 341 (Senator Frosh, *et al.*)
Finance

Gas Companies and Electric Companies - Service Quality and Reliability Standards

This bill requires the Public Service Commission (PSC) to implement regulations establishing service quality and reliability standards for gas companies and electric companies governing the delivery of gas and electricity to retail customers. The bill specifies the benchmarks that must be included in the reliability standards and requires PSC to use existing national standards to the extent feasible. Gas companies and electric companies are required to report to PSC annually and the bill specifies items to be included in each report. PSC is authorized to impose civil penalties against a gas company or an electric company that fails to meet the applicable service quality and reliability standards in an amount not exceeding 10% of the gas company's or electric company's transmission and distribution revenues for the previous calendar year. A penalty imposed under the bill may not be passed on to ratepayers. PSC may adopt regulations necessary to carry out the bill, including methods for gathering data.

Fiscal Summary

State Effect: Special fund expenditures from the Public Utility Regulation Fund increase by $300,000 in FY 2012 only for consultants to develop reliability performance standards. Potential increase in general fund revenues due to the bill's penalty provisions in FY 2012, as the amount of a civil penalty PSC may impose is increased.

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	-	-	-	-	-
SF Expenditure	$300,000	$0	$0	$0	$0
Net Effect	($300,000)	$0	$0	$0	$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: PSC must implement regulations establishing service quality and reliability standards for gas companies and electric companies governing the delivery of gas and electricity to retail customers. Regulations adopted under the bill do not apply to electric cooperatives or gas cooperatives. The standards must include benchmarks for:

- service outages;
- customer satisfaction;
- distribution and transmission facility upgrades;
- repairs and maintenance;
- staffing levels;
- telephone service;
- billing service; and
- public safety.

PSC must use existing national standards to the extent feasible and may require each gas company and electric company to supply data to assist PSC in developing and measuring compliance with the standards. PSC may adopt regulations to implement the bill, including methods for gathering data.

Each gas company and electric company must file an annual report with PSC by the date required by PSC. Each report must include (1) a comparison of the company's performance in the previous calendar year to the service quality and reliability standards; (2) a description of future actions and projects planned to ensure compliance with the standards; and (3) any supporting data required by PSC. The bill authorizes PSC to impose a civil penalty against a gas company or an electric company that fails to meet the applicable service quality and reliability standards in an amount not exceeding 10% of the gas company's or electric company's transmission and distribution revenues for the previous calendar year. A penalty imposed under the bill may not be passed on to ratepayers.

Current Law: A public service company must furnish equipment, service, and facilities that are safe, adequate, just, reasonable, economical, and efficient, considering the conservation of natural resources and the quality of the environment.

Electric Company Reliability

Each electric company is required to maintain reliability of its distribution system in accordance with applicable orders, tariffs, and regulations of PSC. The Maryland Code of Regulations (COMAR 20.50.07.05) requires each utility to avoid interruptions of service. If interruptions occur, service must be reestablished within the shortest time practicable, consistent with safety. Under COMAR, each utility must report to PSC: (1) the onset of a storm; (2) a sustained interruption initiated by the utility in response to unacceptable system voltages; and (3) a sustained interruption initiated by the utility in response to thermal overloads of an electric plant. In a report to PSC, each utility must include a general description of areas experiencing the service interruption and the expected system restoration times, if available, and provide regular updates.

Annual Reliability Reporting

COMAR 20.50.07.06 requires electric companies with more than 40,000 customers to submit an annual reliability report to PSC by May 1 of each year. Utilities must report System Average Interruption Frequency Index (SAIFI), System Average Interruption Duration Index **(**SAIDI) and Customer Average Interruption Duration Index (CAIDI) for its system and all of its feeders originating in Maryland. Each index should include all interruption data and a set of data excluding major event interruption data.

Investor-owned utilities must report SAIDI, SAIFI, and CAIDI for 2% of feeders or 10 feeders, whichever is more, that are identified by the utility as having the poorest reliability. Cooperatively owned utilities must report SAIDI, SAIFI, and CAIDI for each operating district and identify the operating district with the poorest reliability. Each investor-owned utility must report remedial actions taken or planned to improve reliability for these feeders. Each cooperative-owned utility must report remedial actions taken or planned to improve reliability for the operating district with the poorest reliability.

Gas Company Reliability

The Code of Maryland Regulations (COMAR 20.55.09.06) require each gas company to make reasonable efforts to avoid interruptions of gas service. When service interruptions occur, service must be re-established within the shortest time practicable, consistent with safety. Each gas company must notify PSC of any interruption to the service of a major portion of its distribution system and keep a record of interruptions. Each gas company must make an analysis of records for the purpose of determining steps to be taken to prevent recurrence of interruptions. The records must include the cause; the date and time; and the duration of each interruption. In additional to State regulations, gas companies must adhere to a multitude of federal regulations for pipeline safety.

Civil Penalties

PSC may impose a civil penalty up to $10,000 against a person who violates an outstanding direction, ruling, order, or regulation of PSC. Each violation is a separate offense and each day or part of a day the violation continues is a separate offense. Civil penalties collected by PSC are paid into the general fund.

Background: In January 2011 PSC initiated an administrative docket (RM 43) to consider revisions to regulations governing the service supplied by electric companies. The proposed regulations modify electric company service and reliability standards for service interruption, downed wire repair, service quality, vegetation management, annual reliability reporting, and the availability of penalties for failure to meet the standards. PSC will conduct a rulemaking session to consider whether to publish the proposed revisions to COMAR in March 2011.

Several violent thunderstorms hit the Pepco service territory on July 25, August 5, and August 12, 2010, causing power outages to 297,000, 75,000, and 98,000 customers, respectively. PSC received many complaints about the outages, including the failure of Pepco's automated communication system during the outages. Due to the frequency, number, and duration of the power outages and the apparent breakdown of adequate communication by Pepco to its customers during the outages, PSC initiated an investigation (Case No. 9240) into the reliability of Pepco's substations and infrastructure in extreme weather situations, the quality of distribution service Pepco provides its customers, and Pepco's storm preparedness efforts.

In response to PSC, Pepco filed a major storm report; emergency response, reliability enhancement, and storm restoration plans; an internal residential customer satisfaction survey relating to electric system reliability; a report indicating costs for reliability distribution system activities; a report relating to the effectiveness of tree wire in preventing or mitigating outages; a report indicating procedures for determining and disseminating estimated times of restoration to customers and communicating with customers during outage situations; a report indicating measures taken to remediate and prevent the reliability, restoration, and communication problems that occurred; and a report indicating standards used in providing customer service and assuring reliability in connection with restoration and communication during outage events.

A report by the independent consultant selected to review reliability of Pepco's electric distribution system, including a survey of best practices from electric companies in other states and a compilation of standards used by other utility commissions to measure distribution system reliability, was filed with PSC on March 2, 2011. The consultant's report identifies the root causes of Pepco's reliability problems and critiques the most recent set of initiatives it has suggested to address them. The report found that Pepco's system infrastructure was generally well designed, although the sub-transmission and distribution systems are particularly vulnerable to tree damage, in part due to the fact they are primarily placed along public streets. This vulnerability was magnified by Pepco's failure to meet its annual tree trimming goals. The report stated that Pepco's physical restoration efforts in the storms of 2010 were reasonably good, with the exception of Pepco's damage assessments and problems with communication both within the company and externally. Generally, the findings from this investigation state that Pepco needs to be more proactive, rather than reactive, in dealing with problems. As an evidentiary proceeding, PSC set a procedural schedule that requires the filing of testimony in May 2011 and hearings in June 2011.

On January 26, 2011, a winter storm resulted in a significant interruption of service to a sufficient number of customers in the BGE and Pepco service territories thus classifying the event as a "major storm." Pursuant to COMAR, each utility is required to file a written report to PSC within three weeks of the end of the storm. PSC initiated Case Number 9256 in response to the service interruption and on Thursday, March 3, 2011, PSC conducted a legislative-style hearing to review the reports and better understand the utilities' performance and a repeat of Pepco's communication system failure, and to understand why large numbers of customers were out of service for a significant period of time, far exceeding 24 hours.

BGE and Pepco each submitted a Major Storm Report to PSC showing each company's response to the January 2011 major storm. The reports detailed storm preparedness and mobilization, system damage and restoration, improvements to-date, reliability enhancement plan progress, lessons learned, and future plans.

Exhibit 1 shows SAIFI and SAIDI results from each major electric utility in the State. These indices are commonly used as a reliability indicator by electric companies. SAIFI is the average number of interruptions that a customer experiences in a year, while SAIDI is the average outage duration for each customer served (in hours).

Exhibit 1
Average Reliability Results
2005-2009 Average

Distribution Territory	SAIFI	SAIDI
Allegheny	1.09	3.28
BGE	1.49	4.09
Choptank	2.16	3.94
Delmarva	2.23	5.73
Pepco	2.14	5.70
SMECO	1.15	2.57

Source: Public Service Commission

State Expenditures: National standards to benchmark electric and gas utility service and reliability performance do not currently exist. Thus, it is assumed special fund expenditures from the Public Utility Regulation Fund increase by $300,000 in fiscal 2012 only for PSC to hire a consulting firm with access to national information on utility performance to develop standards to benchmark the performance of gas companies and electric companies.

State Revenues: Under current law, PSC may impose a civil penalty of up to $10,000 per violation on a gas company or electric company that violates an outstanding direction, ruling, order, or regulation of PSC. Any such penalties are currently paid to the general fund. Although no penalties have been imposed for violations of service and reliability regulations in recent years, the proposed regulations under PSC consideration, if adopted, may increase the frequency of penalties imposed by PSC for such violations. Since the bill allows a civil penalty up to 10% of a gas company or electric company's transmission and distribution charges, this may allow PSC to impose a much larger civil penalty than allowed under current law. To the extent penalties are imposed and are increased in the future for violations of these standards, general fund revenues may increase.

Additional Comments: Costs incurred by utilities to increase reliability of service are paid directly by electric customers through distribution charges approved by PSC. If a utility incurs significant costs to increase reliability, the cost of electricity increases for all customers in that distribution territory.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Office of People's Counsel, Public Service Commission, Department of Legislative Services

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ncs/lgc

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