SB 804

Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 804 (Senator Raskin)
Finance

Electric Companies - Extended Service Disruptions - Penalties and Ratepayer Compensation

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This bill requires the Public Service Commission (PSC), by regulation or order, to require an electric company to compensate a ratepayer for any damages incurred by the ratepayer as a result of an extended disruption to electrical service. These damages include: spoiled, contaminated, or wasted food, and the reasonable expenses of any emergency measures taken by the ratepayer to cope with the disruption in electrical service, including temporary travel and relocation to a hotel by a residential ratepayer. If PSC determines that an electric company's response to an extended disruption in electrical service is inadequate to a given circumstance, PSC may impose a penalty on an electric company in an amount not exceeding 2.5% of the electric company's transmission and distribution revenues for the previous calendar year. The cost to an electric company of any compensation or penalty may not be passed on to ratepayers.

Fiscal Summary

State Effect: Special fund expenditures from the Public Utility Regulation Fund increase by $157,200 in FY 2012 for additional staff to resolve electric customer disputes. Future year expenditures reflect inflation and annualization. Potential increase in general fund revenues due to the bill's penalty provisions beginning in FY 2012.

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
GF Revenue	-	-	-	-	-
SF Expenditure	$157,200	$169,800	$177,200	$185,000	$193,100
Net Effect	($157,200)	($169,800)	($177,200)	($185,000)	($193,100)

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

Local Effect: None.

Small Business Effect: Potential meaningful. Under the bill, small businesses that incur damages as a result of an extended disruption to electrical service may receive reimbursement from electric companies.

Analysis

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.

Each electric company is required to maintain reliability of its distribution system in accordance with applicable orders, tariffs, and regulations of PSC. The Code of Maryland 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.

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 and triggering the requirement for the utilities 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 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 System Average Interruption Frequency Index (SAIFI) and System Average Interruption Duration Index (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 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 paid into 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 PSC to impose a penalty of up to 2.5% of an electric company's transmission and distribution revenues, this may allow PSC to impose a much larger penalty than allowed under current law. The bill does not specify if the penalty is paid into the general fund or into the Public Utility Regulation Fund; for purposes of this fiscal and policy note, it is assumed that any penalties imposed under the bill are paid into the general fund. Thus, general fund revenues may increase.

State Expenditures: PSC's Office of External Relations resolves disputes between electric companies and their customers. Under the bill, PSC anticipates a significant increase in the number of disputes as customers seek to have expenses incurred as a result of an electricity outage reimbursed. Special fund expenditures from the Public Utility Regulation Fund increase by $157,236 in fiscal 2012, which accounts for the bill's October 1, 2011 effective date. This estimate reflects the cost of hiring one administrative specialist and six part-time contractual employees to process claims filed by electric customers after an extended disruption of electrical service. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Full-time Positions	1
Part-time Contractual Positions	6
Salaries and Fringe Benefits	$115,079
Equipment and Operating Expenses	42,157
Total FY 2012 State Expenditures	**$157,236**

Future year expenditures reflect full salaries with 4.4% annual increases and 3% employee turnover for the full-time position and 7.2% employee turnover for the contractual positions as well as 1% annual increase in ongoing operating expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 15, 2011
ncs/lgc

Analysis by: Erik P. Timme

Direct Inquiries to:
(410) 946-5510
(301) 970-5510