

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE
Revised

House Bill 151
Ways and Means

(Delegate A. Miller)

Budget and Taxation

Task Force on the Implementation of Tax Benefits for Emergency Preparedness
Equipment

This bill establishes the Task Force to Study Tax Benefits for Emergency Preparedness Equipment to study and make recommendations regarding an income tax credit to purchase electric generators and a tax-free period for emergency preparedness equipment. The Maryland Energy Administration, the Maryland Emergency Management Agency, and the Governor's Office of Homeland Security must provide staff for the task force, which must report its findings and recommendations to the Governor and General Assembly by December 1, 2013.

The bill takes effect June 1, 2013, and terminates June 30, 2014.

Fiscal Summary

State Effect: The bill's requirements can be handled with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: As specified by the bill, the task force consists of two members of the General Assembly, one representative from the Maryland chapter of AARP, one member of the Maryland Retailers Association, one member of the public who is a customer of an electric utility, and the following or a designee of the following:

- the Comptroller;
- the Chairman of the Public Service Commission;
- the Secretary of Health and Mental Hygiene;
- the Director of the Maryland Energy Administration;
- the Director of the Maryland Emergency Management Agency; and
- the Director of the Governor's Office of Homeland Security.

The Governor must designate the chair of the task force. A member of the task force may not receive compensation as a member of the task force but is entitled to reimbursement for standard expenses as provided in the State budget.

The task force must include in its study which members of the population would benefit from, and how individuals with physical difficulties, elderly individuals, and other individuals who are dependent on a consistent supply of power for medical purposes would benefit from, the implementation of an income tax credit to purchase electric generators or a tax-free period for emergency preparedness equipment. The task force must also study whether commercial establishments would benefit from an income tax credit to purchase electric generators or a tax-free period for emergency preparedness equipment and the costs of establishing the credit or a tax-free period. The task force recommendations must include qualifications for the credit, the amount of the credit to be granted, and the length of a tax-free period for emergency preparedness equipment.

Current Law: No similar State tax credit to purchase electric generators exists. No other state or the federal government has a similar credit, although legislation has recently been introduced in New York.

The State sales and use tax rate is 6%, except for the sale of alcoholic beverages, which are taxed at a rate of 9%. Current law does not provide for any sales tax holiday or tax-free week for emergency preparedness equipment. The State allows a seven-day tax-free period in August each year for back-to-school shopping, in which the sales and use tax does not apply to any item of clothing or footwear, excluding accessory items, if the taxable price of the item is \$100 or less.

Background: Several major power outage events have occurred in the State in recent years. For example, 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. The Public Service Commission (PSC) received many complaints about the outages. On January 26, 2011, a winter storm caused 126,000 peak customer outages in the Baltimore Gas and Electric (BGE) service territory and 190,000 peak customer outages in the Pepco service territory.

On June 29, 2012, a “derecho” storm severely impacted electrical service to a large portion of the State, especially in the BGE and Pepco service territories. High sustained wind speeds with gusts in excess of 65 miles per hour (mph) resulted in downed trees, broken telephone poles, and damaged electric distribution infrastructure. Based on the definition of “major outage event,” most electric companies in the State were required to file a written report on the outage and subsequent repair services. The reports indicate that BGE and Pepco each experienced over 750,000 total customer outages, with maximum concurrent interruptions of over 400,000 customers each – significantly higher than for any other recent major outage event. **Exhibit 1** contains information related to customer outages and service restoration for each electric company that filed a report. Full copies of each of the reports can be found on PSC’s website under Case No. 9298.

Exhibit 1
Summary Statistics – Utility Major Outage Event Reports
June 29, 2012 Derecho Storm

	<u>Total Maryland Customers</u>	<u>Total Customer Outages</u>	<u>Maximum Concurrent Interruptions</u>	<u>Customer Interruption Hours</u>	<u>Average Duration per Customer (Hours)</u>	<u>Duration of Major Outage Event</u>
BGE	1,240,173	762,781	429,841	28,643,177	37.6	8 Days, 15 Hours
Delmarva	194,945	50,476	28,059	436,823	8.7	3 Days, 19 Hours
Pepco	534,601	786,766	410,679	20,465,930	26.0	8 Days, 6 Hours
SMECO	151,800	83,250	56,424	1,203,860	14.5	3 Days, 19 Hours

SMECO: Southern Maryland Electric Cooperative
Source: Major Outage Reports Filed in PSC Case No. 9298

Hurricane Sandy made landfall near Atlantic City, New Jersey, on October 28, 2012. Much of Maryland experienced sustained wind speeds in excess of 35 mph, with gusts ranging from 55 to 65 mph. Many areas in the State experienced between four and six inches of rain, and some areas on the Eastern Shore experienced double that, while some areas in Western Maryland received approximately two feet of snow. Despite these totals, customer outages were fewer and of shorter duration, on average, than those related to the June derecho storm. Customer outages in each service territory were approximately:

- 350,000 in BGE;
- 110,600 in Potomac Edison;

- 83,600 in Delmarva;
- 81,400 in Pepco; and
- 35,800 in SMECO.

Additional outage information for each electric company can be found in the major storm reports posted on PSC's website under Case No. 9308.

Florida, Louisiana, and Virginia have annual sales tax holidays for hurricane preparedness equipment. These sales tax holidays are in May, and the items eligible for the sales tax exemption as well as any price limits are specifically stated.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller's Office, U.S. Census Bureau, Department of Legislative Services

Fiscal Note History: First Reader - February 15, 2013
mc/jrb Revised - House Third Reader - March 25, 2013
Revised - Enrolled Bill - May 7, 2013

Analysis by: Michael Sanelli

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