Department of Legislative Services

Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 467 (Senator Frosh, *et al.*)
Finance

Electric Companies - Rate Adjustment to Recover Profits Lost During Service Disruption - Prohibition

This bill prohibits the Public Service Commission (PSC) from authorizing an electric company to adjust the electric company's rates to recover profits lost during a disruption in electrical service.

Fiscal Summary

State Effect: PSC can implement the bill with existing budgeted resources. State electricity expenditures are not materially affected. State revenues are not affected.

Local Effect: Local government electricity expenditures are not materially affected.

Small Business Effect: Minimal.

Analysis

Current Law: PSC has the power to set a just and reasonable rate of a public service company, as a maximum rate, minimum rate, or both. PSC is required to adopt ratemaking policies for programs that encourage energy efficiency and conservation. Since electric industry restructuring in 1999, electric companies now primarily consist of distribution and transmission facilities – the "wires" portion of the traditional utility. Each electric company must file a tariff schedule of its rates and charges for its regulated services with PSC, and PSC issues orders that include approved rates for each electric company.

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

PSC regulations (Code of Maryland Regulations 20.50.07) require electric companies to make reasonable efforts to avoid interruptions of service. When interruptions occur, electric companies must reestablish service within the shortest time practicable, consistent with safety. Each electric company must keep records of interruptions of service on its primary distribution system and must make an analysis of the records for the purpose of determining steps to be taken to prevent recurrence of the interruptions. The records should include the cause, date, time, and duration of the interruptions.

Background: Electric companies in Maryland are authorized by PSC to decouple their electric rates from sales volume through a Bill Stabilization Adjustment (BSA). A BSA is a lagged addition to or reduction from a customer's monthly bill that aligns actual revenues with expected revenues set in rate cases. PSC has considered the mechanics of BSA as it relates to outage events in multiple cases and, in October 2012 (just prior to hurricane Sandy), issued Order No. 85177, which disallowed decoupling revenue for the entire duration of a major outage event. Additional information regarding revenue decoupling and outage events can be found in the **Appendix – Electric Company Revenue Decoupling**.

Additional Information

Prior Introductions: SB 9 of the 2012 second special session was referred to the Senate Rules Committee. No further action was taken.

Cross File: None.

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

Fiscal Note History: First Reader - February 4, 2013
mlm/lgc

Analysis by: Stephen M. Ross

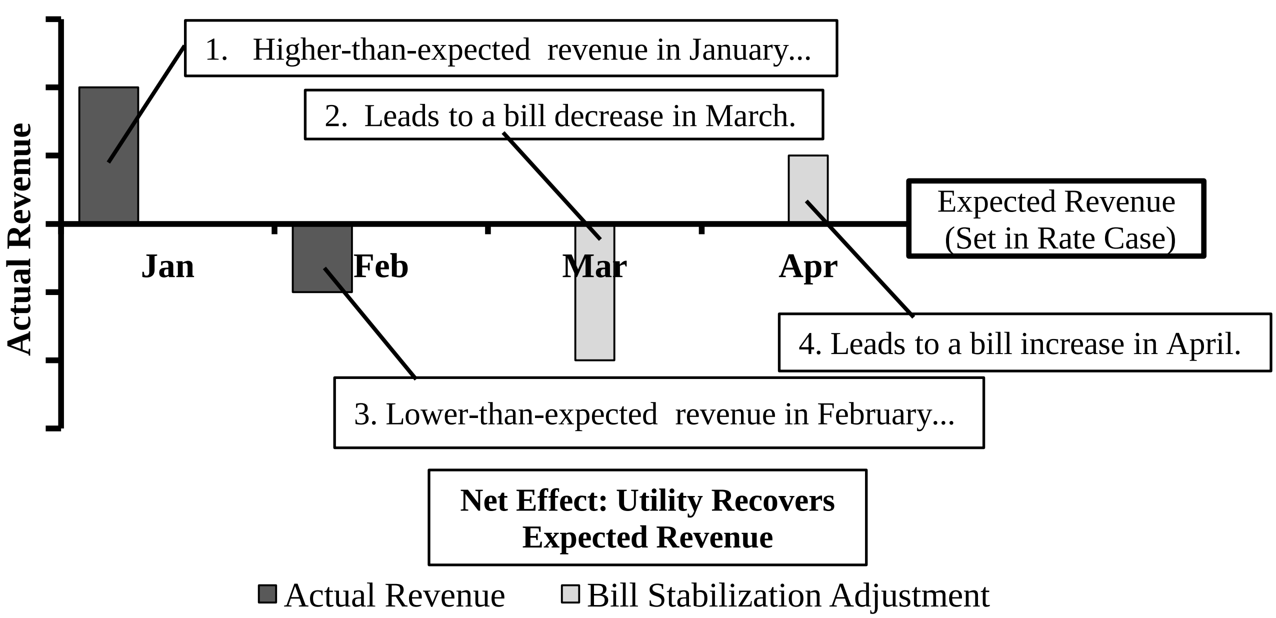
Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix – Electric Company Revenue Decoupling

Decoupling of electric company rates separates electric company revenues from energy sales volume. Generally, decoupled distribution rates charged to customers are allowed to fluctuate to allow the company to receive an expected rate of return or revenue per customer regardless of the kilowatt-hours of sales. Decoupling of electric distribution rates isolates electric companies from being financially impacted by State-mandated energy conservation and efficiency programs (such as the EmPOWER Maryland Act of 2008) and allows electric companies to account for unanticipated changes in usage due to severe weather and customer response to supply price increases.

Exhibit 1 tracks a hypothetical four-month period of an electric company's actual versus expected revenues and the resulting bill adjustments. If the company receives higher-than-expected revenue in one month, a *reduction* is applied to a subsequent billing period. Similarly, if the company receives lower-than-expected revenue in one month, an *increase* is applied to a subsequent billing period. These adjustments are "rolled into" the distribution rates on customer bills, and therefore do not appear as separate line items. The Department Legislative Services notes that actual revenues from electric distribution charges in March and April have been omitted from Exhibit 1 for clarity. Any differences from expected revenues in those months would be adjusted for via the same process in May and June, respectively.

Exhibit 1
Bill Stabilization Adjustments



The Public Service Commission (PSC) approved decoupling of electric rates for Potomac Electric Power Company (Pepco) and Delmarva Power and Light (Delmarva) in 2007. Decoupling was approved for Baltimore Gas and Electric (BGE) in 2008 and for Southern Maryland Electric Cooperative (SMECO) in 2010. Decoupling is practically accomplished through a bill rider known as a Bill Stabilization Adjustment (BSA). A BSA is a lagged addition to or reduction from a customer's monthly bill that aligns actual revenues with expected revenues set in rate cases.

Revenue Decoupling and Reliability

In February 2011, due to its concerns that revenue decoupling may have unwittingly eliminated a critical incentive to restore electrical services quickly, PSC initiated proceedings (Case Nos. 9257 through 9260) to investigate how electric companies calculate their monthly distribution rates under decoupling mechanisms. Due to major interruptions of service in February 2010, July and August 2010, and January 2011, electricity sales in these months were reduced, and decoupling mechanisms allowed electric companies to bill and collect lost revenues from their customers.

In January 2012, PSC issued Order No. 84653 which required electric companies to modify their tariffs so that decoupling revenue was not collected beyond 24 hours after the commencement of a "major outage event" (10% of a company's customers or 100,000, whichever is less, without power). In other words, to the extent that the electric companies were not able to restore service to pre-major outage event levels within 24 hours of the storm's commencement, their decoupling revenue would be disallowed for the remainder of the outage. PSC noted that electric companies were still allowed to collect revenue for lost energy sales for blue sky outages, short-term outages of less than 24 hours, and for storms that do not meet the "major outage event" threshold.

PSC again reconsidered the BSA mechanism subsequent to the June 29, 2012 "derecho" storm, which severely impacted electrical service to a large portion of the State, especially in the BGE and Pepco service territories. The derecho was the first major outage event subject to the revised BSA as discussed above. Hence, utilities were not able to collect lost sales revenue *except* for the first 24 hours of lost sales. In October 2012 (just prior to hurricane Sandy), PSC issued Order No. 85177 which disallowed decoupling revenue for the entire duration of a major outage event. In the order, PSC found that the inclusion of lost sales during the first 24 hours of a major outage event (1) results in an unfair burden on ratepayers; (2) does not appropriately align the utilities' financial incentives and reliability goals; and (3) is inconsistent with the original intent of the BSA. The full text of the order can be found on PSC's website.