Department of Legislative Services
Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE
Revised

House Bill 35 (Delegate W. Miller)
Economic Matters Finance

Electric Reliability - Priorities and Funding

This bill requires the Public Service Commission (PSC) and each electric company assessed a penalty for a violation of specified service quality and reliability standards to establish priorities for targeting remediation efforts to improve electric service quality and reliability for the worst performing feeder lines and other distribution lines and equipment. The remediation efforts must be paid for, in whole or in part, using the Electric Reliability Remediation Fund, a new special fund established by the bill. The bill redirects the payment of civil penalties assessed for violations of the specified service quality and reliability standards from the general to the new fund.

The bill takes effect July 1, 2014.

Fiscal Summary

State Effect: General fund revenues decrease beginning in FY 2015 due to the redirection of civil penalties assessed on electric companies by PSC for violations of service quality and reliability standards to the Electric Reliability Remediation Fund. Because violations cannot be predicted, a reliable estimate of the amount of penalty revenue redirected under the bill cannot be made. Special fund revenues and expenditures increase correspondingly beginning in FY 2015 for eligible reliability measures under the bill. PSC can implement the bill with existing budgeted resources.

Local Effect: Minimal.

Small Business Effect: None.

Analysis

Bill Summary: An Electric Reliability Remediation Fund is established to provide resources to target remediation efforts to improve electric service quality and reliability for the worst performing electric distribution lines in the State. PSC must administer the fund, which consists of revenue distributed from civil penalties assessed for violations of service quality and reliability standards, money appropriated in the State budget, and any other source. The fund can only be used for eligible reliability measures. The civil penalty revenue can only be used for eligible reliability measures and projects in the service territory of the electric company that paid the penalty. However, the civil penalty revenue may not replace or substitute for money already budgeted for or spent on any project, including an otherwise eligible reliability measure, that the electric company is required to implement under State service quality and reliability standards or any other law.

An "eligible reliability measure" means a replacement of or an improvement in existing infrastructure of an electric company that:

- is made on or after June 1, 2014;
- is designed to improve public safety or infrastructure reliability;
- does not increase the revenue of an electric company by connecting an improvement directly to new customers; and
- is not included in the current rate base of the electric company as determined in the electric company's most recent base rate proceeding.

An eligible reliability measure includes vegetation management measures that are necessary to meet specified service quality and reliability standards.

Current Law: Chapters 167 and 168 of 2011 required PSC, by July 1, 2012, to adopt regulations implementing service quality and reliability standards using System-Average Interruption Duration Index, System-Average Interruption Frequency Index, and any other standard PSC determines to be reasonable for the delivery of electricity to retail customers by electric companies. The resulting regulations set minimum reliability standards for each electric company based on past performance, establish a mandatory annual performance reporting system, and mandate vegetation management, among other requirements.

The regulations also establish a poorest performing feeder standard for each electric company. Generally, no feeder ranked in the poorest performing 3% of feeders can perform in the poorest performing 3% of feeders in subsequent reporting periods unless the electric company has undertaken reasonable remediation measures to improve the performance of the feeder. If an electric company fails to meet the requirement, it must provide a corrective action plan to PSC.

PSC must determine annually if each electric company has met the service quality and reliability standards and take appropriate corrective action against an electric company that fails to meet any or all of the applicable standards, including appropriate civil penalties for noncompliance. Electric companies may not recover the cost of any civil penalty from ratepayers.

In addition to any other penalty authorized, PSC may impose a civil penalty of up to $25,000 against a person who violates specified provisions or an outstanding direction, order, rule, or regulation of PSC. Each day or part of a day the violation continues is a separate offense.

Public service companies that violate PSC provisions that relate to safety are subject to a civil penalty of up to $25,000 per violation for each day that the violation persists. Civil penalties collected by PSC are paid into the general fund. An individual who knowingly aids or abets a public service company in violating PSC rules, orders, and regulations is guilty of a misdemeanor and unless a different punishment is specified, on conviction is subject to a fine of up to $1,000 for a first offense and up to $5,000 for a subsequent offense.

Background: Due to several major outage events in recent years, there has been an enhanced focus on improving electric reliability in the State. Following a series of storms in 2010, concerns arose regarding service quality in the Potomac Electric Power Company (Pepco) electric distribution territory. In December 2011, following more than a year-long review of Pepco's service quality and reliability, PSC levied a $1.0 million fine on Pepco and imposed other penalties. See the **Appendix – Major Outage Events** for additional information related to outages.

Additional Information

Prior Introductions: HB 1152 of 2013 passed the House with amendments and received a favorable report from the Senate Finance Committee, but no further action was taken.

Cross File: None.

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

Fiscal Note History: First Reader - January 13, 2014
mc/lgc Revised - Enrolled Bill - April 14, 2014

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Appendix – Major Outage Events

Several major 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.

More recently, a "derecho" storm on June 29, 2012, 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 any other recent major outage event. **Exhibit 1** below 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

	Total Maryland Customers	Total Customer Outages	Maximum Concurrent Interruptions	Customer Interruption Hours	Average Duration per Customer (Hours)	Duration of Major Outage Event
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

Finally, 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 received between four and six inches of rain, and some areas on the Eastern Shore received 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 2012 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 related to hurricane Sandy for each electric company can be found in the major storm reports posted on PSC’s website under Case No. 9308.