

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 511
Economic Matters

(Delegate Jameson, *et al.*)

Finance

**Public Utilities - Water Companies and Sewage Disposal Companies - Rate Cases
and Proceedings**

This bill authorizes the technical staff of the Public Service Commission (PSC) to assist a small water company or a small sewage disposal company in establishing a proposed just and reasonable rate, subject to specified conditions. The availability of staff-assisted rate cases must be restricted to water and sewage disposal companies with recent gross annual revenues of less than a PSC-determined amount, which must be set at less than \$1.0 million. PSC must adopt regulations to establish formal rules for these staff-assisted rate cases. Water and sewage disposal companies are also incorporated into existing processes to determine a fair rate of return for certain relatively small public service companies.

Fiscal Summary

State Effect: As PSC staff are authorized, but not required, to assist small water companies in determining proposed rates, it is assumed that PSC can implement the bill with existing budgeted resources.

Local Effect: None. The bill applies to small for-profit water and sewer companies.

Small Business Effect: Potential meaningful. To the extent that small for-profit water and sewer companies are considered small businesses, they may benefit from assistance provided by PSC technical staff in establishing proposed rates.

Analysis

Current Law: “Water company” means a public service company that owns a water plant and sells or distributes water *for gain*. PSC staff are not explicitly authorized to assist public service companies in establishing a proposed just and reasonable rate.

“Make Whole” Rate Proceedings

The following process applies to a gas company, electric company, or telephone company whose gross annual revenues, for the most recent calendar year for which data is available, are less than 3% of the total gross annual revenues of all public service companies in the State during the same calendar year. The process does not apply in certain circumstances with recently changed or pending rates. Unless PSC provides otherwise, the process also does not apply to a proposed new rate that is filed more than three years after PSC enters a final order authorizing the existing fair rate of return in the previous base rate proceeding.

When PSC suspends a proposed new rate for an eligible public service company that is based on the existing authorized fair rate of return, PSC must promptly institute proceedings to determine if additional revenues are required to allow the company to earn the existing fair rate of return. PSC must (1) serve each of the parties to the previous base rate proceeding of that company with a copy of the suspension order and (2) order the company to publish information about the proposal in newspapers of general circulation in its service area. The proceedings must:

- account for revenues, expenses, and rate base in the same manner that PSC employed in determining a just and reasonable rate in the previous base rate proceeding; and
- exclude consideration of any increase in the rate of return, any change in rate structure, or any change in an accounting approach to any item pertaining to revenues, expenses, or rate base inconsistent with that used by PSC in determining a just and reasonable rate in the previous base rate proceeding on the company.

PSC must enter a final order as to the revenue requirement determined under the proceedings within 90 days after the proposed new rate is filed. The final order must (1) authorize a new rate distributing any change in the revenue requirement proportionally among the ratepayers without change in the rate structure and (2) state whether further proceedings must be held.

If, in the final order, PSC decides to conduct further proceedings, then after a hearing, it may (1) modify the rate structure; (2) lower the authorized fair rate of return; or (3) modify the accounting approach to an item that pertains to revenues, expenses, or rate base. PSC

must take any action on these further proceedings within 120 days after entry of a final order issued above, and the process is subject to additional specified requirements.

Background: PSC regulates the infrastructure, rates, management, and billing of 22 water and water/sewage companies in the State. Combined, these companies have approximately 11,000 residential customers. PSC's annual reports indicate that, in most years, the commission typically reviews a small number of requests for rate adjustments from these companies, although there is some variance from year-to-year.

The majority of water systems in Maryland are municipal systems whose supply, infrastructure, customer care, and rates are not regulated by PSC. PSC also (1) reviews and authorizes new franchises for water companies, new construction, and the consolidation of water systems and (2) promulgates water conservation and safety policies.

Additional Information

Prior Introductions: None.

Cross File: SB 218 (Senators Middleton and Hershey) - Finance.

Information Source(s): Public Service Commission; Department of Legislative Services

Fiscal Note History: First Reader - January 27, 2017
md/lgc Third Reader - February 19, 2017

Analysis by: Stephen M. Ross

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