

SENATE BILL 530

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CF 9lr2637

By: **Senators Klausmeier and Feldman**

Introduced and read first time: February 4, 2019

Assigned to: Finance

A BILL ENTITLED

1 AN ACT concerning

2 **Electricity – Standard Offer Service – Cost Allocation**

3 FOR the purpose of prohibiting an electric company from including certain costs associated
4 with providing standard offer service in a certain base rate proceeding; requiring the
5 Public Service Commission to require an electric company that files a certain base
6 rate case to conduct a certain cost of service study for certain purposes; specifying
7 costs that must be addressed in the study; requiring an electric company that
8 provides standard offer service to identify certain costs and to segregate those costs
9 in a certain manner; prohibiting an electric company from recovering certain costs
10 in a certain base rate proceeding; requiring the allocation of certain costs in a certain
11 manner; requiring a certain report to include certain information on the
12 identification and allocation of certain costs; requiring a certain competitive process
13 to include the identification of certain costs; and generally relating to electricity rates
14 and standard offer service.

15 BY repealing and reenacting, without amendments,
16 Article – Public Utilities
17 Section 4–101
18 Annotated Code of Maryland
19 (2010 Replacement Volume and 2018 Supplement)

20 BY adding to
21 Article – Public Utilities
22 Section 4–308
23 Annotated Code of Maryland
24 (2010 Replacement Volume and 2018 Supplement)

25 BY repealing and reenacting, with amendments,
26 Article – Public Utilities
27 Section 7–510(c)(3) and (4)
28 Annotated Code of Maryland

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



(2010 Replacement Volume and 2018 Supplement)

SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,
That the Laws of Maryland read as follows:

Article – Public Utilities

4–101.

In this title, “just and reasonable rate” means a rate that:

(1) does not violate any provision of this article;

(2) fully considers and is consistent with the public good; and

(3) except for rates of a common carrier, will result in an operating income to the public service company that yields, after reasonable deduction for depreciation and other necessary and proper expenses and reserves, a reasonable return on the fair value of the public service company’s property used and useful in providing service to the public.

4–308.

(A) IN ESTABLISHING A JUST AND REASONABLE RATE UNDER § 4–203 OF THIS TITLE FOR AN ELECTRIC COMPANY THAT PROCURES AND PROVIDES STANDARD OFFER SERVICE UNDER § 7–510(C) OF THIS ARTICLE, THE ELECTRIC COMPANY MAY NOT INCLUDE IN THE BASE RATE FOR ELECTRIC DISTRIBUTION SERVICE ANY DIRECT OR INDIRECT COSTS ATTRIBUTABLE TO THE PROCUREMENT OR PROVISION OF STANDARD OFFER SERVICE OTHER THAN COSTS ATTRIBUTABLE TO THE DISTRIBUTION SERVICE UNDER § 7–510(C)(3)(II)4 OF THIS ARTICLE.

(B) (1) THE COMMISSION SHALL REQUIRE AN ELECTRIC COMPANY, IN THE FIRST RATE CASE THAT THE ELECTRIC COMPANY FILES ON OR AFTER OCTOBER 1, 2019, TO INCLUDE A COST OF SERVICE STUDY THAT IDENTIFIES AND ALLOCATES THE COSTS OF PROVIDING STANDARD OFFER SERVICE AS DISTINGUISHED FROM THE COSTS THAT MAY BE INCLUDED IN THE BASE RATES FOR DISTRIBUTION SERVICES.

(2) THE SPECIFIC COSTS THAT THE STUDY MUST ADDRESS INCLUDE:

(I) COMMODITY COSTS;

(II) PHYSICAL AND FINANCIAL HEDGING COSTS;

(III) PROCUREMENT COSTS;

(IV) BILLING SYSTEM AND BILLING COSTS; AND

1 **(V) INDIRECT COSTS, INCLUDING:**

- 2 **1. CUSTOMER SERVICE AND ACCOUNT MANAGEMENT**
3 **COSTS;**
- 4 **2. WORKING CAPITAL;**
- 5 **3. CREDIT AND COLLECTIONS COSTS;**
- 6 **4. BUILDING COSTS;**
- 7 **5. INFORMATION TECHNOLOGY COSTS;**
- 8 **6. LEGAL AND FINANCIAL COSTS;**
- 9 **7. CUSTOMER RELATIONS;**
- 10 **8. SALES AND ADVERTISING COSTS;**
- 11 **9. DEPRECIATION OF ASSETS RELATED TO PLANT**
12 **ASSOCIATED WITH PROVIDING STANDARD OFFER SERVICE; AND**
- 13 **10. LABOR COSTS.**

14 **(C) THE REPORT SHALL SUPPORT THE ALLOCATION OF COSTS BETWEEN**
15 **STANDARD OFFER SERVICE AND DISTRIBUTION SERVICE PROPOSED IN THE BASE**
16 **RATE PROCEEDING UNDER § 4-203 OF THIS TITLE.**

17 7-510.

18 (c) (3) (i) Except as provided under subparagraph (ii) of this paragraph,
19 any obligation of an electric company to provide standard offer service shall cease on July
20 1, 2003.

21 (ii) 1. Electric cooperatives and municipal electric utilities may
22 choose to continue providing standard offer service in their respective distribution
23 territories and may cease offering that service after notifying the Commission at least 12
24 months in advance.

25 2. On and after July 1, 2003, an electric company continues
26 to have the obligation to provide standard offer service to residential and small commercial
27 customers at a market price that permits recovery of the verifiable, prudently incurred
28 costs to procure or produce the electricity plus a reasonable return.

1 **3. AN ELECTRIC COMPANY THAT PROVIDES STANDARD**
2 **OFFER SERVICE:**

3 **A. SHALL IDENTIFY THE DIRECT AND INDIRECT COSTS**
4 **ASSOCIATED WITH PROCURING AND PROVIDING ELECTRICITY SUPPLY FOR**
5 **STANDARD OFFER SERVICE;**

6 **B. SHALL SEGREGATE THE COSTS IDENTIFIED UNDER**
7 **ITEM A OF THIS SUBSUBPARAGRAPH; AND**

8 **C. MAY NOT RECOVER THE COSTS IDENTIFIED UNDER**
9 **ITEM A OF THIS SUBSUBPARAGRAPH IN ANY BASE RATE FOR DISTRIBUTION OF**
10 **ELECTRICITY ESTABLISHED UNDER § 4-203 OF THIS ARTICLE.**

11 **4. IN THE CASE OF COSTS IDENTIFIED UNDER**
12 **SUBSUBPARAGRAPH 3 OF THIS SUBPARAGRAPH THAT ARE SHARED BETWEEN THE**
13 **PROCUREMENT AND PROVISION OF STANDARD OFFER SERVICE AND COSTS OF**
14 **PROVIDING DISTRIBUTION SERVICE, THE COMMISSION SHALL REQUIRE THE**
15 **ELECTRIC COMPANY TO ALLOCATE THE COSTS TO EACH SERVICE IN ACCORDANCE**
16 **WITH A COST ALLOCATION METHOD APPROVED BY THE COMMISSION.**

17 (iii) 1. On or before December 31, 2008, and every 5 years
18 thereafter, the Commission shall report to the Governor and, in accordance with § 2-1246
19 of the State Government Article, to the General Assembly on the status of the standard
20 offer service, the development of competition, and the transition of standard offer service
21 to a default service.

22 2. **THE REPORT SHALL INCLUDE INFORMATION ON THE**
23 **IDENTIFICATION AND ALLOCATION OF DIRECT AND INDIRECT COSTS OF ELECTRIC**
24 **COMPANIES IN PROVIDING STANDARD OFFER SERVICE AS DISTINGUISHED FROM**
25 **THE COSTS THAT MAY BE INCLUDED IN THE BASE RATES FOR DISTRIBUTION**
26 **SERVICES.**

27 3. The Commission shall establish, by order or regulation,
28 the definition of "default service".

29 (4) (i) On or before July 1, 2001, the Commission shall adopt
30 regulations or issue orders to establish procedures for the competitive selection of wholesale
31 electricity suppliers, including an affiliate of an electric company, to provide electricity for
32 standard offer service to customers of electric companies under paragraph (2) of this
33 subsection, except for customers of electric cooperatives and municipal electric utilities.
34 Unless delayed by the Commission, the competitive selection shall take effect no later than
35 July 1, 2003.

1 (ii) 1. Under the obligation to provide standard offer service in
2 accordance with paragraph (3)(ii) of this subsection, the Commission, by regulation or
3 order, and in a manner that is designed to obtain the best price for residential and small
4 commercial customers in light of market conditions at the time of procurement and the
5 need to protect these customers from excessive price increases:

6 A. shall require each investor-owned electric company to
7 obtain its electricity supply for residential and small commercial customers participating
8 in standard offer service through a competitive process in accordance with this paragraph;
9 and

10 B. may require or allow an investor-owned electric company
11 to procure electricity for these customers directly from an electricity supplier through one
12 or more bilateral contracts outside the competitive process.

13 2. A. As the Commission directs, the competitive process
14 shall include a series of competitive wholesale bids in which the investor-owned electric
15 company solicits bids to supply anticipated standard offer service load for residential and
16 small commercial customers as part of a portfolio of blended wholesale supply contracts of
17 short, medium, or long terms, and other appropriate electricity products and strategies, as
18 needed to meet demand in a cost-effective manner.

19 B. The competitive process may include different bidding
20 structures and mechanisms for base load, peak load, and very short-term procurement.

21 C. By regulation or order, as a part of the competitive process,
22 the Commission shall require or allow the procurement of cost-effective energy efficiency
23 and conservation measures and services with projected and verifiable energy savings to
24 offset anticipated demand to be served by standard offer service, and the imposition of other
25 cost-effective demand-side management programs.

26 **D. THE COMPETITIVE PROCESS SHALL INCLUDE THE**
27 **IDENTIFICATION OF DIRECT AND INDIRECT COSTS OF PROVIDING STANDARD OFFER**
28 **SERVICE AS DISTINGUISHED FROM THE COSTS THAT MAY BE INCLUDED IN THE**
29 **ELECTRIC COMPANY'S BASE RATES FOR DISTRIBUTION SERVICES.**

30 3. A. In order to prevent an excessive amount of load
31 being exposed to upward price risks and volatility, the Commission may stagger the dates
32 for the competitive wholesale auctions.

33 B. By regulation or order, the Commission may allow a date
34 on which a competitive wholesale auction takes place to be altered based on current market
35 conditions.

36 4. By regulation or order, the Commission may allow an
37 investor-owned electric company to refuse to accept some or all of the bids made in a
38 competitive wholesale auction in accordance with standards adopted by the Commission.

