SB 530

Department of Legislative Services

Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 530 (Senators Klausmeier and Feldman)
Finance

Electricity - Standard Offer Service - Cost Allocation

This bill explicitly prohibits an electric company from including any direct or indirect costs attributable to the procurement or provision of standard offer service (SOS) in its base rates other than costs attributable to the distribution service. In the case of shared costs, they must be allocated in accordance with a cost allocation method approved by the Public Service Commission (PSC). PSC must require an electric company, in the first rate case that the company files on or after October 1, 2019, to include a specified cost of service study. The bill also modifies an existing PSC reporting requirement to include information related to SOS cost allocation.

Fiscal Summary

State Effect: PSC can handle the bill's requirements with existing budgeted resources. The bill does not otherwise materially affect State finances or operations.

Local Effect: The bill does not materially affect local government finances or operations.

Small Business Effect: Minimal.

Analysis

Bill Summary: In establishing a just and reasonable rate for an electric company that procures and provides SOS, 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 SOS other than costs attributable to the distribution service.

PSC must 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 SOS as distinguished from the costs that may be included in the base rates for distribution services. The bill specifies costs that must be addressed in the study, including commodity costs, procurement costs, and indirect costs such as working capital, information technology, and legal costs.

Current Law: There is no express authorization for or prohibition against including costs enumerated by the bill in base rates. The bill's cost allocation requirement generally reflects current practice in the setting of electric company base rates and the allocation of costs – although the bill is more prescriptive and alters some cost allocations between distribution service and SOS. While a SOS cost of service study *may* be directed by PSC as part of a rate case, it is not generally required.

Background: The Electric Customer Choice and Competition Act of 1999 facilitated the restructuring of the electric utility industry in Maryland. The resulting system of customer choice allows the customer to purchase electricity from a competitive supplier or to continue receiving electricity under SOS. Default SOS electric service is provided by a customer's *electric company* (*e.g.*, BGE or Pepco). Competitive electric supply is provided by competitive *electricity suppliers*. In either case, the electric company delivers the electricity and recovers the costs for delivery through distribution rates.

To provide SOS, electric companies solicit bids for electricity through a series of rolling auctions every six months. At any one time, the SOS rate reflects the average of four separate auctions held over two years, which has a moderating effect on rate changes.

Additional Information

Prior Introductions: None.

Cross File: HB 692 (Delegates Carey and D.E. Davis) - Economic Matters.

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

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md/lgc

Analysis by: Stephen M. Ross

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