

Public Utilities...

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Position: FAV



THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

The Honorable Brian Feldman, Chair
Education, Energy, and the Environment Committee
Maryland Senate
Annapolis, MD 21401

March 20, 2025

Testimony in Support of HB0984: Public Utilities - Electric Cooperatives - Rate Proceedings

Chair Feldman and esteemed members of this committee,

Thank you for the opportunity to provide written testimony in support of HB0984: Public Utilities - Electric Cooperatives - Rate Proceedings. I am Delegate Brian Crosby, the representative for District 29B in St. Mary's County, Maryland. The purpose of HB0984 is to implement "make whole" rate proceedings for certain electric cooperatives in a similar process as currently exists for small investor-owned gas companies and municipal utilities.

As established by current statute, the Public Service Commission (PSC) protects ratepayers by ensuring that ratepayers pay a just and reasonable rate for utility services. While the process of determining that rate depends on the size of the utility, utilities that are less than 3% of the total gross annual revenue of all public service companies in the State participate in the "make whole" rate proceeding. This proceeding allows similar-sized utilities to recoup costs that are unable to be covered by the regular rate-making process.

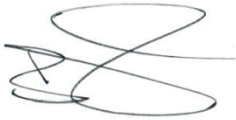
HB0984 permits electric cooperatives to be included in the "make whole" rate proceeding. The litigation process for the establishment of a new rate is often expensive and involves significant time and resources for all involved stakeholders. The result is that the costs incurred by the utility during the process of litigating a new rate case are ultimately passed to the ratepayer. With the passage of HB0984, the already-existing, streamlined process will reduce the costs associated with rate cases and will still allow the Public Service Commission, Maryland Office of People's Counsel, and any other interested parties to review any application submitted by an electrical cooperative to modify its rates.

HB0984 also includes the use of DSC Ratio as the methodology to calculate a new rate for an electrical cooperative rather than using "rate of return." Similarly sized not-for-profit cooperatives tend to use DSC Ratio as it is the preferred methodology for indicating a company's ability to meet its ongoing debt service payments, including both principal and interest. Changing the methodology to match the needs of the electrical cooperatives ensures that best practices are being followed to better protect ratepayers, the State, and the cooperatives.

In conclusion, the passage of HB0984 would protect ratepayers by helping not-for-profit, electrical cooperatives use the existing, administratively-streamlined process of the “make whole” rate proceeding to establish a new rate if a mismatch between costs and revenues warrants a new filing. It is important to note that the legislation does not diminish the ability of interested parties to review applications for a modification of its electric distribution rates. Similarly, HB984 preserves all customer protections in place today related to rate cases, including requirements for publication/notice and public hearings.

Thank you for your consideration of this legislation, I urge a favorable report.

Sincerely,

A handwritten signature in black ink, appearing to be "Brian Crosby", with a stylized, looping flourish at the end.

Delegate Brian Crosby
District 29B, St. Mary's County

HB 984_SMECO_Dennison_FAV.pdf

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Position: FAV

March 20, 2025

HB 984: Public Utilities – Electric Cooperatives – Rate Proceedings

Committee: Senate Education, Energy, and the Environment

Position: Support

Southern Maryland Electric Cooperative (SMECO), a member-owned electric cooperative and not-for-profit organization based in Hughesville that provides electricity to more than 175,000 member accounts in Charles, St. Mary's, Calvert and southern Prince George's County, supports HB 984.

The bill would permit SMECO to take advantage of an existing, administratively-streamlined process for updating distribution rates that is regularly used by small investor-owned gas companies (*e.g.*, Columbia Gas of Maryland, Inc.) and municipal utilities (*e.g.*, Easton Utilities Commission) that develop rates based upon a “rate of return” methodology. Under current law, a utility company regulated by the Maryland Public Service Commission (the “Commission”) whose gross annual revenues are less than 3% of the total gross annual revenues of all public service companies may file what is known as a “make whole” rate proceeding. *See* Md. Ann. Code, Pub. Utils. Art. § 4-207. As it stands today, this administratively-streamlined proceeding requires the Commission to determine if additional revenues are required to meet a fair rate of return authorized by the Commission in the previous base rate case proceeding.

Expansion of the statute to include electric cooperatives is warranted because (1) SMECO is very close to the 3 percent cutoff in the existing law (SMECO accounted for 3.8 percent of the total gross annual revenues of all public service companies in 2023), and (2) consistent with other not-for-profit, electric cooperatives, SMECO uses a debt service coverage ratio to establish just and reasonable rates, as opposed to a “fair rate of return,” which is the methodology used by investor-owned utilities to address shareholder expectations. Rate cases cost a lot of money, time, and resources to litigate for all involved stakeholders (*i.e.*, not just the utility) – costs that are borne ultimately by SMECO's

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ratepayers/customer-members and taxpayers. This administratively-streamlined process will save money for everyone and help further maintain the financial health and wellbeing of SMECO, as a not-for-profit electric cooperative. Importantly, the bill does not in any way diminish the ability of the Commission and interested parties, including the Maryland Office of People's Counsel, to fully review any application submitted by SMECO for a modification to its electric distribution rates.

As noted above, in addition to adding "electric cooperatives" to the statute, HB 984 will also add "Debt Service Coverage Ratio" (DSC Ratio) as an appropriate methodology for calculating a new rate for an electric cooperative, as opposed to relying solely up a "rate of return," which is not commonly used to calculate rates for not-for-profit cooperatives like SMECO. The DSC Ratio is the means by which a cooperative's financial health is measured. In a nutshell, the DSC Ratio is an important indicator if a company has adequate coverage to meet its ongoing debt service payments, which includes both principal and interest. A DSC Ratio of 2.0, for example, means that the cooperative has twice as much incoming revenue as it holds in debt.

The immediate practical application of HB 984 is that SMECO would be allowed to file a "make whole" rate proceeding using the DSC Ratio of 1.80 authorized by the Commission in Case No. 9738, Order No. 91430 (2024) at some point within a 3-year period following the entry of that Commission Order (*i.e.*, up until November 27, 2027). As a not-for-profit, electric cooperative focused 100% on the interests of its customer-members and the provision of safe, reliable, and affordable electric service, SMECO only files rate cases when absolutely necessary to maintain the financial health and wellbeing of the utility. In that regard, nothing would change with the passage of HB 984, and SMECO would only file a "make whole" rate proceeding if there arises a significant mismatch between costs and revenues.

Finally, it is also important to note that HB 984 preserves all customer protections in place today related to rate case proceedings, including requirements for publication/notice and public hearings.

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MyMGA written response.pdf

Uploaded by: Deserie Mowlds

Position: UNF

Greetings,

I am against this bill. If this bill passes, I will have to make it a priority to not vote in a democrat on the next election.

How sad that the government is doing its best to be irresponsible with taxpayers dollars, health and welfare. Nauseating to consider how they are putting children in danger. Disgusting to see all the additional fees, taxes and tolls that Maryland is considering verses balancing the budget with less spending and not allowing the teachers union to run our government.

As a retiree, I am considering moving from Maryland due to the poor leadership of our State legislators.

Please pay attention to what the people want.

Deserie Mowlds