Department of Legislative Services
Maryland General Assembly
1999 Session

FISCAL NOTE

Senate Bill 705 (Senator Miller)
Finance

Electric Utility Industry Restructuring - Securitization

This bill generally provides for the recovery and financing of intangible transition costs associated with the implementation of consumer choice in the electric market.

The bill is effective on July 1, 1999 and is contingent upon the enactment of Senate Bill 300.

Fiscal Summary

State Effect: The Public Service Commission could handle the bill's requirements with existing resources. Potential indeterminate decrease in general and special fund revenues.

Local Effect: Potential indeterminate decrease in revenues.

Small Business Effect: None. The bill does not directly affect small businesses as consumers of electricity.

Fiscal Analysis

Bill Summary: The bill authorizes the Public Service Commission (PSC) to issue qualified rate orders approving intangible transition charges to recover and finance qualified transition costs. Transition bonds may be issued to provide for such financing. The bill requires specific information to be included in the electric company's application for a qualified rate order and sets criteria that must be met. The bill establishes procedures for hearings and appeals on the qualified rate orders and for the perfection of a security interest in the intangible transition property.

The bill authorizes an electric utility company to securitize a stranded cost through the issuance of transition bonds either directly by the company or by a finance subsidiary or third party assignee of the company. To facilitate the securitization, the bill authorizes the creation of a property right to collateralize the transition bond. The property right, or "intangible transition property," represents the right to collect from customers amounts sufficient to recover a utility's stranded cost, pay the expenses of issuing and servicing the transition bonds, and fund any necessary reserve accounts. The amounts are collected by imposing intangible transition charges. The intangible transition charges will be used to pay the interest and principle on these bonds. Any additional receipts will be deposited into a reserve account for future obligations.

State Effect: If the proceeds from a sale or transfer of intangible transition property are determined by the Internal Revenue Service to be taxable for federal taxable income purposes, there may be a revenue loss to the State. If any sales or transfers occur with federal taxation, the bill will exempt the consideration received in such transactions from the State corporation income tax. A portion of corporation income taxes (approximately 25%) is distributed to the Transportation Trust Fund (TTF).

Local Effect: Local governments receive a distribution from the Transportation Trust Fund. Any decline in TTF revenues attributable to decreased revenues from the corporate income tax will result in a lower distribution to local governments.

Information Sources: Public Service Commission, Comptroller, Judiciary, Department of Assessments and Taxation

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ncs/jr

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