

Department of Legislative Services  
Maryland General Assembly  
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 739  
Finance

(Senator Pipkin, *et al.*)

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Electric Utility Regulation - Standard Offer Service - Total Rates

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This bill caps at 10% the amount by which base rates for standard offer service to residential electric customers may rise in any given year. The electric company may recover the difference between the market rate for generated electricity and the cap for that year through a transition charge for a four-year period starting in the following year.

The bill is effective June 1, 2004.

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Fiscal Summary

**State Effect:** The bill would not materially affect State government operations.

**Local Effect:** None.

**Small Business Effect:** None.

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Analysis

**Bill Summary:** The bill prohibits the Public Service Commission (PSC), in any year in which an electric company is required to provide standard offer service (SOS), from approving rate increases for SOS that exceeds the previous year's rate by 10% or more. The bill provides that electricity providers may recoup the difference between the requested rate increase to recover costs and the 10% cap authorized in this bill over a period not to exceed four years.

PSC is not permitted to include recovery of a previous year's rate increase in the calculation of the current year's 10% growth rate cap. Any increase in distribution or

transmission rates due to a settlement agreement or rate proceeding, must be included in the determination of the 10% cap.

PSC is required, by regulation or order, to adopt procedures for the creation of a formula for the recovery of the SOS transition charge from residential customers. The bill prohibits more than 25% of the SOS transition charge in any one year in the four-year period and provides that the charge shall be separately stated in bills to customers.

**Current Law:** Chapters 3 and 4 of 1999 capped electric rates to retail electric consumers for four years following the initial implementation of consumer choice. As part of a settlement, PSC approved caps for different periods of time for each utility. PSC and the electric utilities recently signed a second settlement (Phase II) for the provision of SOS for a period of four years after residential price caps are removed. Residential price caps expire in the Potomac Electric Power Company and Connective service areas July 1, 2004; in the Baltimore Gas & Electric service area July 1, 2006; and in the Allegheny Power service area January 1, 2009. After the expiration of those price caps, PSC will oversee a bidding process for the SOS contracts.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1056 (Delegate Elmore, *et al.*) – Economic Matters.

**Information Source(s):** Public Service Commission, Office of People’s Counsel, Department of Legislative Services

**Fiscal Note History:** First Reader - February 24, 2004  
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