
By: **Senator Klausmeier**

Introduced and read first time: February 3, 2006

Assigned to: Finance

Committee Report: Favorable with amendments

Senate action: Adopted

Read second time: March 24, 2006

CHAPTER _____

1 AN ACT concerning

2 **Public Service Companies - Cost Allocation Manual - Independent Audit**

3 FOR the purpose of requiring certain public service companies to file certain
 4 independent audit opinions with the Public Service Commission at certain
 5 intervals; ~~altering the list of required contents of a certain independent audit~~
 6 ~~opinion; providing that a certain independent auditor shall examine compliance~~
 7 with certain policies, proper allocation of certain costs, and appropriate charging
 8 of certain costs and identify certain adjustments that should be made; repealing
 9 a prohibition against requiring certain public service companies to file more
 10 than one independent audit opinion during a certain time period under certain
 11 circumstances; and generally relating to public service companies cost allocation
 12 manuals and audits.

13 BY repealing and reenacting, with amendments,
 14 Article - Public Utility Companies
 15 Section 4-208
 16 Annotated Code of Maryland
 17 (1998 Volume and 2005 Supplement)

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

20 **Article - Public Utility Companies**

21 4-208.

22 (a) This section applies to a public service company that:

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- 1 (1) provides gas or electric services;
- 2 (2) is subject to a cost allocation manual approved by the Commission;
- 3 (3) (i) engages in an unregulated business activity; or
- 4 (ii) has a subsidiary that engages in an unregulated business
- 5 activity; and
- 6 (4) does not meet the standards for rate proceedings provided for under §
- 7 4-207 of this subtitle.

8 (b) (1) [When a] A public service company subject to this section SHALL

9 FILE AN INDEPENDENT AUDIT OPINION PREPARED BY AN ENTITY APPROVED BY THE

10 COMMISSION ON THE EARLIEST OF:

- 11 (I) ONCE EVERY 2 YEARS; OR
- 12 (II) WHEN THE PUBLIC SERVICE COMPANY:
- 13 1. files a request for a change in its base rate under this
- 14 subtitle[.]; or
- 15 2. has a major change in its corporate organization or
- 16 structure as determined by the Commission[, the public service company shall file
- 17 with the request an independent audit opinion prepared by an entity approved by the
- 18 Commission that:

- 19 (1) certifies to the continuing accuracy of the public service company's
- 20 cost allocation manual; or
- 21 (2) identifies adjustments that should be made to the manual consistent
- 22 with prior Commission rulings].

23 (2) THE INDEPENDENT ~~AUDIT OPINION~~ AUDITOR SHALL:

24 ~~(A) STATE THAT THE INDEPENDENT AUDITORS HAVE DETERMINED~~

25 ~~WHETHER:~~

26 ~~1. THE PUBLIC SERVICE COMPANY HAS COMPLIED WITH~~

27 ~~THE POLICIES AND PROCEDURES OF THE PUBLIC SERVICE COMPANY'S COST~~

28 ~~ALLOCATION MANUAL; AND~~

29 ~~2. THERE WERE COSTS THAT WERE NOT ALLOCATED TO AN~~

30 ~~AFFILIATE OF THE PUBLIC SERVICE COMPANY THAT SHOULD HAVE BEEN~~

31 ~~ALLOCATED TO AN AFFILIATE IN ACCORDANCE WITH THE MANUAL;~~

32 ~~(H) STATE WHETHER THE ACTUAL COSTS AND TRANSACTIONS~~

33 ~~RELATIVE TO THE MANUAL HAVE BEEN APPROPRIATELY CHARGED TO THE PUBLIC~~

34 ~~SERVICE COMPANY AND ITS AFFILIATES; AND~~

1 ~~(III) IDENTIFY ADJUSTMENTS THAT SHOULD BE MADE TO THE~~
2 ~~MANUAL CONSISTENT WITH EARLIER COMMISSION RULINGS.~~

3 (I) EXAMINE:

4 1. COMPLIANCE BY THE PUBLIC SERVICE COMPANY WITH
5 POLICIES AND PROCEDURES OF THE PUBLIC SERVICE COMPANY'S COST ALLOCATION
6 MANUAL;

7 2. PROPER ALLOCATION OF COSTS TO AN AFFILIATE OF THE
8 PUBLIC SERVICE COMPANY IN ACCORDANCE WITH THE MANUAL; AND

9 3. APPROPRIATE CHARGING OF COSTS AND TRANSACTIONS
10 RELATIVE TO THE MANUAL TO THE PUBLIC SERVICE COMPANY AND ITS AFFILIATES;
11 AND

12 (II) IDENTIFY ADJUSTMENTS THAT SHOULD BE MADE:

13 1. TO THE MANUAL CONSISTENT WITH PRIOR COMMISSION
14 RULINGS; AND

15 2. TO THE PUBLIC SERVICE COMPANY OR TO AN AFFILIATE
16 OF THE PUBLIC SERVICE COMPANY RELATIVE TO THE EXAMINATION OF THE
17 ALLOCATION OF COSTS AND CHARGING OF COSTS AND TRANSACTIONS.

18 [(c) A public service company may not be required to file more than one
19 independent audit opinion under this section within a consecutive 3-year period.]

20 [(d)] (C) The cost of the independent audit opinion filed under subsection (b)
21 of this section shall be borne by the stockholders of the public service company.

22 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect
23 October 1, 2006.