

Department of Legislative Services  
Maryland General Assembly  
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 1050

(Senator Middleton, *et al.*)

Finance

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Electric Industry Restructuring - Repeal of Return in Providing Standard Offer Service

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This bill repeals the requirement that the standard offer service (SOS) rate for residential and small commercial customers provide the electric utility with a reasonable return.

The bill takes effect July 1, 2006.

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Fiscal Summary

**State Effect:** Potential minimal increase in expenditures for the Office of the People's Counsel. Revenues would not be directly affected.

**Local Effect:** None.

**Small Business Effect:** Potential minimal.

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Analysis

**Current Law:** As of July 1, 2000, all customers of electric companies have the opportunity for choice of electric suppliers. However, a customer has the option to remain with the supplier of the electric utility under SOS. Any obligation of the electric company to continue to offer SOS expired on July 1, 2003 unless PSC found that the market was not competitive. Then PSC could extend the requirement to provide SOS to residential and small commercial customers at a market price that permits recovery of the verifiable, prudently incurred costs to procure or produce the electricity plus a reasonable return. PSC is to reexamine whether the market is competitive annually. An electric

company may procure the electricity needed to meet its SOS from any electricity supplier, including an affiliate of the electric company.

**Background:** In settlement agreements with each of the State's investor-owned utilities, PSC has extended the obligation to provide SOS. The Electric Customer Choice and Competition Act of 1999 required price caps with statewide rate reductions for four years which could be extended by settlement agreement. Under the final settlement agreements, the price caps required under the Electric Utility Restructuring Act of 1999 expired in the PEPCO and Delmarva service territories on July 1, 2004, and are scheduled to expire in the BGE service territory on July 1, 2006, and in the Allegheny service territory on January 1, 2009. Because there continues to be little competition in residential electric service in the State, PSC has extended the obligation to provide SOS in the PEPCO, Delmarva, and BGE service territories by four years after the expiration of the price caps.

Included in the settlement agreements, SOS rates after the rate caps expire include a component for an administrative charge. The total administrative charge for residential customers is \$0.004 per kilowatt hour. The components of the total administrative charge are: (1) \$0.0015 for the utility reasonable rate of return; (2) \$0.0005 for incremental costs; and (3) \$0.002 for administrative adjustment. The administrative charge for commercial customers is the same except the profit component is different. For small and medium commercial customers it is \$0.002 and for large commercial customers it is \$0.0025. The incremental charge allows for uncollectible costs such as consultants, auction and procurement costs, and public educational materials that *cannot* be recovered in a utility's distribution rate. The administrative adjustment is used to adjust the cost of SOS while holding harmless customers through a commensurate credit. It increases the price competitors must outbid, which the settling parties assert will assist the development of a competitive generation market.

Elimination of the reasonable rate of return portion of the SOS charge would likely save the average residential customer \$1.50 per month, or \$18 per year as the average kilowatt usage is 1,000 per month.

The following chart provides the expected annual utility revenues from the reasonable rate of return after the rate cap expiration.

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**Exhibit 1**  
**Estimated Total Annual Standard Offer Service Return Component**  
**(In Millions)**

| <u>Return Component</u>      | <u>Residential</u> | <u>Small and<br/>Medium<br/>Commercial</u> | <u>Large<br/>Commercial<br/>and Industrial</u> | <u>Total</u>  |
|------------------------------|--------------------|--|--|---------------|
| mills/kwh                    | 1.5 mills          | 2.0 mills                                  | 2.25 mills                                     |               |
| \$/kwh                       | (\$0.0015)         | (\$0.0020)                                 | (\$0.0025)                                     |               |
| <b>Distribution Utility:</b> |                    |  |  |               |
| Allegheny                    | \$4.7*             | \$2.9                                      | \$1.5  | \$9.1         |
| BGE                          | 19.0*              | 14.8                                       | 1.2  | 35.1          |
| Delmarva                     | 3.3                | 2.2  | 0.1  | 5.6           |
| PEPCO                        | 8.4                | 7.3  | 1.1  | 16.8          |
| <b>Total</b>                 | <b>\$35.4</b>      | <b>\$27.2</b>                              | <b>\$3.9</b>                                   | <b>\$66.6</b> |

\* - expected when price caps expire

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**State Expenditures:** To the extent that this bill causes the filing of multiple rate cases before the Public Service Commission, all of which would heard in the same fiscal year, the Office of the People’s Counsel advises that they could possibly need to hire additional consultants to handle the workload. It is estimated that the cost for consultants would increase by no more \$90,000.

The Public Service Commission advises that any additional responsibilities could be handled with existing budgeted resources.

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 17, 2006  
mam/jr

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Analysis by: Karen S. Benton

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