

Department of Legislative Services  
Maryland General Assembly  
2006 Session

FISCAL AND POLICY NOTE

House Bill 1334  
Economic Matters

(Delegate McDonough, *et al.*)

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Electric Utility Regulation - Standard Offer Service - Total Rates

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This bill establishes that an electric company obligated to provide standard offer service (SOS) under a Public Service Commission (PSC) order may not charge residential customers a total rate that exceeds the previous year's rate by more than 5%. The bill allows specified "standard offer service transition charge" for recovery of rates over a five-year period beginning one year after the increase in the total rate. PSC must adopt procedures to implement the rate limitation including the creation of a formula for the recovery of the SOS transition charge. The formula may not allow for more than 20% to be recovered in any given year. SOS transition charge is defined as the rate or charge authorized by PSC for the recovery of SOS costs.

The bill is effective June 1, 2006.

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Fiscal Summary

**State Effect:** The bill's requirements could be handled with existing budgeted resources.

**Local Effect:** None.

**Small Business Effect:** None.

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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.

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 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.

**Background:** It is anticipated that energy costs are going to increase substantially this summer. The Baltimore Gas & Electric (BGE) rate freeze is set to expire on July 1, 2006. Forecasters are predicting an increase in BGE residential utility costs of between 40% and 81%. As a proactive measure, on January 10, 2006, PSC initiated a proceeding to investigate and take actions it may find appropriate to deal with the anticipated price increases. PSC staff developed a mitigation plan for BGE's generation price increase which was adopted on March 6, 2006. The mitigation plan contains the following features:

- The BGE Rate Stabilization Plan (the plan) begins in July 2006 and ends May 2008 for most residential customers. This two-year rate mitigation plan allows customers the option of more gradually adjusting to market rates over an extended period of time.
- Low-income customers participating in the Electric Universal Service Program will receive an option of a three-year rate mitigation plan.
- As part of the plan the initial increases will be limited to 21% and customers will receive credits to the distribution portion of their bill from July 2006 to February 2007. For the remaining period of the plan customers will receive a charge to the distribution portion of their bill to recover the credited amount. At the conclusion of the program, a final true-up will occur for program participants.

- The plan will serve as the default option for residential customers. Customers who wish to pay the full price of electricity beginning July 1, 2006 will have that opportunity.
- BGE will pay the full market price of the electric generation even though customers will only be paying the mitigated amount. PSC has determined that the appropriate interest rate for recovering this short-term deferred balance is 5.0%.
- BGE is required to work with PSC and other interested parties to develop a consumer education plan and enrollment details which must be submitted to PSC by March 31, 2006.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 814 (Senator Stone) – Finance.

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

**Fiscal Note History:** First Reader - March 6, 2006  
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