

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 786

(Senator Klausmeier)

Finance

Economic Matters

Public Service Companies - Cost Allocation Manual - Independent Audit

This bill requires gas and electric companies that are subject to cost allocation manual requirements to have an independent audit opinion at least once every two years. The auditor must examine: (1) compliance with the company's cost allocation manual; (2) proper allocation of costs to an affiliate in accordance with the manual; and (3) whether the costs and transactions relative to the manual have been appropriately charged to the company and its affiliates. The auditor must identify adjustments that should be made to the manual consistent with earlier Public Service Commission (PSC) rulings and to the company or affiliate relative to the examination. The bill repeals the provision that a company may not be required to have an audit more than once in a consecutive three-year period.

Fiscal Summary

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

Local Effect: None.

Small Business Effect: Potential minimal.

Analysis

Current Law: A gas or electric company that is: (1) subject to a cost allocation manual; (2) either it or its subsidiary engage in an unregulated activity; and (3) does not meet the standards for rate proceedings, is required to have an audit when the company files a request for a base rate change or has a major change in its corporate organization. This

would not change with the bill's provisions. The audit is required to certify the continuing accuracy of the company's cost allocation manual or identify adjustments that should be made to the manual consistent with prior PSC rulings. A company may not be required to have an audit more than once in a consecutive three-year period.

Background: All permitted transactions between regulated public service company activities and nonregulated affiliates must be recorded according to the public service company's cost allocation manual. The cost allocation manual specifies various accounting rules and regulations of how a subsidiary and parent company interface. The manual was developed and is maintained by PSC with the intention of ensuring that transactions between related utility companies are properly accounted for and inappropriate costs are not passed on to ratepayers.

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 3, 2006
ncs/jr Revised - Senate Third Reader - March 28, 2006

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