SB 1077

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 1077 (Senator Klausmeier, *et al.*)
Finance

Public Service Commission - Actions Involving Electric Companies - Terms and Conditions

---

This bill adds additional consideration requirements for specified acts involving an electric company over which the Public Service Commission (PSC) has jurisdiction. PSC must consider whether the terms and conditions of any agreement, contract, or settlement promote the service, accommodation, convenience, or safety of the public. The terms and conditions must: (1) benefit ratepayers by providing a reduction or stabilization of rates and additional assistance for low-income customers; (2) include commitments to enhance customer service and reliability; (3) include energy efficiency and conservation initiatives; and (4) maintain corporate headquarters in Maryland for the services that directly relate to ratepayers.

The bill takes effect July 1, 2006 and applies to actions pending at PSC as of that date.

Fiscal Summary

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: PSC's authority to oversee mergers and purchases of public service companies operating in the State is a part of its general, supervisory, and regulatory powers under the Public Utilities Article and relates strictly to companies incorporated in the State. Certain provisions explicitly require public service companies to seek permission from PSC prior to undertaking specified activities. A public service company must receive authorization from PSC prior to assigning, leasing, or transferring a franchise or right under a franchise. Without prior approval, a public service company may not purchase, acquire, take, or hold any part of the capital stock or indebtedness of another public service company incorporated in Maryland.

Background: On December 19, 2005, FPL Group, Inc. and Constellation Energy Group, Inc. announced the signing of a definitive agreement to create the nation's largest competitive energy supplier. Constellation Energy is the parent company of Baltimore Gas & Electric (BGE) which supplies electricity to more that 1 million residential and business customers in the State and supplies gas to over 600,000 gas customers in 10 counties and Baltimore City. On January 23, 2006, BGE submitted a petition to PSC with respect to the proposed merger resulting in PSC opening Case No. 9054. Subsequently, Constellation Energy Group has challenged PSC's jurisdiction over the matter. The Federal Energy Regulatory Commission (FERC) is also conducting a separate proceeding to consider the matter.

FERC has power under the Federal Power Act to review mergers. It must approve a merger if it finds that the consolidation will be consistent with the public interest. The analysis under its merger policy statement of whether a consolidation is consistent with the public interest generally involves consideration of three factors: (1) the effect on competition; (2) the effect on rates; and (3) the effect on regulation.

It is anticipated that energy costs are going to increase substantially this summer, the same time that the BGE rate freeze is set to expire on July 1, 2006. Based on the recent bidding process for the market priced SOS, BGE residential rates will increase by an average of 72% beginning in July 2006. The average bill will increase by 39% for PEPCO residential customers and by 35% for Delmarva Power and Light residential customers. 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:

- 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.

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 16, 2006
nas/jr

Analysis by: Karen S. Benton

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