

**Department of Legislative Services**  
Maryland General Assembly  
2006 Session

**FISCAL AND POLICY NOTE**

Senate Bill 1078  
Finance

(Senator Stone, *et al.*)

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**Standard Offer Service - Rate Increase - Delay**

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This emergency bill requires that the standard offer service (SOS) rates for residential and small commercial customers in effect on January 1, 2006 remain in effect until September 30, 2007. Beginning October 1, 2007, the Public Service Commission (PSC) may allow the phased-in implementation of market-based electric rates and tariffs as needed to protect the customers from the impact of sudden and significant increases in electricity rates. The phased-in implementation may include delayed cost recovery. Any charges associated with the delayed cost recovery may not exceed the legal rate of interest established in the Maryland Constitution.

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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:** Minimal.

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**Analysis**

**Current Law:** The Maryland Constitution provides that the legal rate of interest shall be 6% per annum unless otherwise provided by the General Assembly.

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 a 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 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. Small business customers' rates will increase as follows: PEPCO - 52%; Delmarva - 40%; and BGE - 39%. 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.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Public Service Commission, Department of Legislative Services

**Fiscal Note History:** First Reader - March 10, 2006  
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