SB 332

Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 332 (Senator Garagiola, *et al.*)
Finance

Gas Companies - Infrastructure Replacement - Surcharge

This bill authorizes gas companies to file a plan with the Public Service Commission (PSC) requesting authorization to include a surcharge on customers' bills to recover reasonably incurred costs associated with proposed eligible infrastructure replacement projects. The bill specifies the required components of a plan; specifies how the cost of a project is calculated; and establishes a limit for the monthly surcharge that may be imposed of $2 per month for residential gas customers and $5 per month for nonresidential gas customers. PSC must approve a plan if certain conditions are met; if PSC does not approve or deny a plan within 180 days, a gas company may implement the plan without PSC's approval. A gas company must file an annual amendment to a plan and PSC must take action within 90 days. The bill also specifies how a plan is accounted for in the event of a rate case; and how differences in the actual cost of projects in a plan and the amount collected from the surcharge are handled.

The bill takes effect June 1, 2011.

Fiscal Summary

State Effect: Special fund expenditures from the Public Utility Regulation Fund increase by $58,500 in FY 2012 for PSC to hire two part-time employees to evaluate and monitor plans. Future year expenditures reflect inflation and annualization. Revenues are not affected.

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Revenues	$0	$0	$0	$0	$0
SF Expenditure	58,500	68,500	71,900	75,600	79,400
Net Effect	($58,500)	($68,500)	($71,900)	($75,600)	($79,400)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Minimal.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: A gas company may file a plan with PSC requesting authorization to include a surcharge on customers' bills to recover reasonably incurred costs associated with proposed eligible infrastructure replacement projects. "Eligible infrastructure replacement" is defined as the replacement or improvement in the existing infrastructure of a gas company that is: (1) made on or after June 1, 2011; (2) designed to improve public safety or infrastructure reliability; (3) does not increase revenue of a gas company by connecting an improvement directly to new natural gas customers; (4) reduces or has the potential to reduce greenhouse gas emissions through a reduction in natural gas system leaks; and (5) is not included in the current rate base of the gas company as determined by the gas company's most recent base rate proceedings.

A plan for an eligible infrastructure replacement project must include a timeline for completion of each proposed project; the estimated cost of each project; a schedule for the recovery of reasonably incurred costs associated with each project through a single surcharge added to customers' bills; and an explanation of how the plan benefits customers and why the plan is prudent and reasonable. The monthly surcharge may not exceed $2 for residential customers and $5 for nonresidential customers. PSC must approve a plan if it includes all the required elements.

The bill specifies requirements for calculating the estimated cost of a project and requires inclusion of the pre-tax rate of return on the gas company's return on the investment in the project; depreciation associated with the project; and property taxes associated with the project. The bill specifies how the pre-tax rate of return must be calculated.

Before PSC takes final action on a plan, PSC must hold a public hearing on the plan. PSC must take final action to approve or deny a plan within 180 days after a gas company files a plan. If PSC does not take final action to approve or deny a plan within that time period, a gas company may implement the plan without PSC approval. If a plan is implemented without PSC approval, the gas company must refund to customers, with interest, any amount of the surcharge that PSC later determines is unjustified. Unless a plan is filed in conjunction with a rate case, PSC may not consider any other revenue requirement or ratemaking issue when reviewing a plan for approval or denial.

A gas company must file an amendment to the plan with PSC each year to adjust the amount of the surcharge in order to account for any difference between the estimated cost of the projects in a plan and the amount recovered under the surcharge. PSC must take final action to approve or deny an amendment within 90 days after an amendment is filed. A gas company must provide a refund on customers' bills, including interest, if the actual cost of the projects in a plan is less than the surcharge. If the actual cost of the projects in the plan is more than the amount collected under the surcharge, PSC must authorize the gas company to increase the surcharge to recover the difference, subject to monthly limits specified in the bill.

PSC may not reduce the authorized return on common equity or other measure of utility profit as a result of the implementation of a plan. Additionally, if, after approving a surcharge to implement an infrastructure improvement plan, PSC establishes new base rates for the gas company implementing the plan that include costs on which the surcharge is based, the gas company must file a revised rate schedule with PSC that subtracts those costs from the surcharge total.

Current Law: PSC regulates gas distribution companies, including monitoring retail competition and customer choice, to ensure that safe, reliable, and affordable gas service is provided. Rates charged by a gas distribution company are specified in the company's tariff and are approved through an order made by PSC. Through the ratemaking process, a gas distribution company is allowed to charge just and reasonable rates for the regulated services it renders. If a gas distribution company incurs a cost to upgrade natural gas infrastructure and the company seeks to recover those costs, it is done through a formal rate proceeding.

Background: In 2010, the commission regulated seven gas distribution companies (Chesapeake Utilities; Washington Gas Company; Penn Fuel Gas, Inc; Elkton Gas Company; Easton Shore Gas Company; Columbia Gas of Maryland; and Thompson Distribution, Inc.) and two combined gas and electric distribution companies (Baltimore Gas and Electric Company and Easton Utilities Commission). As of December 2010, the State's largest natural gas supplier, Baltimore Gas and Electric, had 608,553 residential and 44,041 nonresidential customers. For the same period, Columbia Gas had 29,001 residential and 3738 nonresidential customers and Washington Gas had 410,685 residential and 30,197 nonresidential customers.

The U.S. Department of Transportation's Office of Pipeline Safety (OPS) is the federal safety authority for ensuring the safe, reliable, and environmentally sound operation of the nation's pipeline transportation system. Natural gas pipelines in Maryland may include large-diameter lines carrying energy products to population centers, as well as small-diameter lines that may deliver natural gas to businesses and households. According to OPS, pipelines are by far the safest method for transporting energy products. However, when pipeline incidents occur they can present significant risks to the public and the environment.

Exhibit 1 shows the number of significant pipeline events in Maryland since 2001.

Exhibit 1
Maryland Significant Incidents – All Pipeline Systems

Year	Number	Fatalities	Injuries	Property Damage
2001	-	-	-	$0
2002	4	1	9	840,612
2003	6	-	2	1,701,048
2004	3	-	-	3,920,914
2005	4	-	-	683,790
2006	2	-	-	386,753
2007	5	-	2	950,528
2008	2	-	1	163,143
2009	2	-	2	2,758,602
2010	-	-	-	-

Source: U.S. Pipeline and Hazardous Materials Safety Administration

State Fiscal Effect: Gas companies typically file for rate review every few years. This bill allows a gas company to seek cost reimbursement at any period and requires PSC to review each proposal. As a result, the number of filings by gas companies that need to be evaluated and approved by PSC increase.

Special fund expenditures from the Public Utilities Regulation Fund increase by $58,485 in fiscal 2012, which takes into account the bill's June 1, 2011 effective date and assumes a 120-day start-up delay. This estimate reflects the cost of hiring a part-time accountant and a part-time public service engineer to evaluate plans submitted by gas companies, monitor compliance under the plans, and to adjust the amount of surcharges when needed. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Part-time Positions	2
Salaries and Fringe Benefits	$48,397
Equipment and Operating Expenses	10,088
Total FY 2012 PSC Administrative Expenditures	**$58,485**

It is assumed that any surcharges imposed on the State, as a gas customer, do not materially affect State finances.

Small Business Effect: The bill authorizes a surcharge of up to $5 per nonresidential customer to pay for cost of natural gas infrastructure upgrades. In the event gas distribution companies apply for and are granted a surcharge for infrastructure replacement, the cost of natural gas increases by up to $60 annually for small businesses that are natural gas customers. To the extent the rate recovery mechanism established by the bill results in an increase in the replacement of natural gas infrastructure, small businesses that assist in installing upgraded natural gas lines could benefit.

Additional Comments: Statewide, the surcharge has the potential to generate a maximum of $29.7 million annually assuming the maximum surcharge is assessed on all existing gas customers. This surcharge would be applied directly to infrastructure replacement projects carried out by gas companies, as approved by PSC. The maximum surcharge that can be imposed on a residential customer associated with an infrastructure plan is $2 per month ($24 annually). PSC is required to approve the plan if certain conditions are met; however, PSC may only allow reasonably incurred costs to be recovered through a surcharge.

Additional Information

Prior Introductions: None.

Cross File: HB 856 (Delegate Barkley, *et al.*) - Economic Matters.

Information Source(s): Office of People's Counsel, Public Service Commission, U.S. Department of Transportation, Department of Legislative Services

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Analysis by: Erik P. Timme

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