**HB 1278**

# Department of Legislative Services

Maryland General Assembly
2011 Session

## FISCAL AND POLICY NOTE

House Bill 1278 (Delegate Hucker, *et al.*)
Economic Matters

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**Electric Companies - Rates - Decoupling Revenue and Sales**

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This bill prohibits the Public Service Commission (PSC) from authorizing an electric company to calculate the rate charged by the company using a formula that decouples the electric company's revenue from the sale of kilowatt-hours (kWh) unless the formula provides for suspension of decoupling during any extended service disruption. The bill defines "extended service disruption" and requires certain electric companies to issue a refund to its ratepayers for any money collected under a decoupling formula during an extended service disruption since January 1, 2007. Each electric company must modify its decoupling formula to provide for suspension of decoupling during any future extended service disruption.

## Fiscal Summary

**State Effect:** PSC can implement the bill with existing budgeted resources. Potential minimal reduction in State electricity costs.

**Local Effect:** Potential minimal reduction in local government electricity costs.

**Small Business Effect:** Minimal overall, but small businesses may receive a small refund or temporary rate reduction as a result of the bill. Future expenditures for electricity for periods following an extended service disruption may also be reduced minimally.

## Analysis

**Bill Summary:** PSC may not allow an electric company to charge a rate which decouples kWh sales from revenue unless the formula suspends decoupling during any extended service disruption. An "extended service disruption" is defined as a disruption in electrical service exceeding 24 hours and affecting 5% or more of an electric company's electric customers in the State.

PSC must calculate the amount of revenue collected by an electric company during an extended service disruption attributable to the portion of the decoupling formula prohibited under the bill for an electric company that (1) performs in the bottom quartile in meeting standards related to line maintenance, reliability, or customer service established by the Institute of Electrical and Electronics Engineers Standards Association (IEEE-SA); (2) has ratepayers that experience an extended service disruption; and (3) on or after January 1, 2007, calculated the rate charged using a formula prohibited under the bill. PSC must require the electric company to provide a pro-rata refund of the amount to each ratepayer subject to the rate as a credit on the ratepayer's bill. If a refund is not practicable, the company must charge off and amortize the amount calculated with interest through a temporary rate decrease for a period set by PSC. PSC must also require the electric company to modify the formula to provide for the suspension of decoupling of the electric company's revenue from the sale of kWh during any future extended service disruption. A ratepayer that is a business with more than one account with an electric company is eligible for a refund or charge off only on the accounts that experienced a service disruption.

**Current Law:** PSC has the power to set a just and reasonable rate of a public service company, as a maximum rate, minimum rate, or both. PSC is required to adopt ratemaking policies for programs that encourage energy efficiency and conservation.

Since electric industry restructuring in 1999, electric companies now primarily consist of distribution and transmission facilities – the "wires" portion of the traditional utility. Each electric company must file a tariff schedule of its rates and charges for its regulated services with PSC, and PSC issues orders that include approved rates for each electric company.

**Background:** Decoupling of electric company rates separates electric company profits from energy sales volume. Generally, distribution rates charged to customers are allowed to fluctuate to allow the company to receive an expected rate of return or revenue per customer regardless of the kWh sales. Decoupling of electric distribution rates isolates electric companies from being financially impacted by State mandated energy conservation and efficiency programs (such as the EmPOWER Maryland Act of 2008) and allows electric companies to account for unanticipated changes in usage due to severe weather and customer response to supply price increases.

PSC approved decoupling of electric rates for Potomac Electric Power Company (Pepco) and Delmarva Power and Light (Delmarva) in 2007. Decoupling was approved for Baltimore Gas and Electric (BGE) in 2008 and for Southern Maryland Electric Cooperative (SMECO) in 2010.

In February 2011, PSC initiated proceedings (Case Numbers 9257, 9258, 9259, and 9260) to investigate the manner in which BGE, Delmarva, Pepco, and SMECO calculate the monthly rate as a result of decoupling mechanisms. PSC has become concerned that decoupling mechanisms may have unwittingly eliminated a critical incentive to restore electrical services quickly. Due to major interruptions of service in February 2010, July and August 2010, and January 2011, electricity sales in these months were reduced, and decoupling mechanisms allowed electric companies to bill and collect lost revenues from its customers. The PSC investigation is ongoing.

The EmPOWER Maryland Energy Efficiency Act of 2008 (Chapter 131) requires electric companies to procure and provide customers with energy conservation and energy efficiency programs and services that are designed to achieve targeted electricity savings and demand reductions for specified years through 2015.

**State/Local Fiscal Effect:** As electric customers, State and local governments may be eligible to receive a refund or a temporary rate decrease from certain revenues received by an electric company that resulted from an extended service disruption. Any refund or temporary rate decrease is not expected to significantly affect State or local government finances. Future electricity costs may also be decreased minimally, as electric companies are prohibited from charging a rate using a decoupling formula for periods following an extended service disruption.

## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

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

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