HB 472

Department of Legislative Services

Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE
Revised

House Bill 472 (Delegate Jameson)
Economic Matters Finance

Telephone Companies - Streamlined Regulatory Requirements

This bill alters the definition of "telephone company" and authorizes the Public Service Commission (PSC) to allow, if PSC finds that it is in the public interest, a telephone company that has 20,000 or fewer subscribers to provide a regulated service without requiring the company to file a tariff schedule. A telephone company that provides discretionary regulated retail services and/or competitive regulated retail services does not have to file with PSC a tariff schedule of its rates and charges for these services. Specified merger and acquisition requirements do not apply to a merger or transfer of stock or other ownership interest between a telephone company and another entity with a greater than 50% ownership in common with the telephone company. A telephone company is likewise exempt from specified requirements related to financial transactions. The bill requires PSC to conduct specified studies and develop a related report.

The bill's provisions related to tariffs take effect September 1, 2015. The bill's other provisions take effect July 1, 2015.

Fiscal Summary

State Effect: Special fund revenues for the Public Utility Regulation Fund (PURF) decrease by $45,900 in FY 2017 and by $183,600 annually thereafter from reduced tariff filing fees and reduced assessments on telephone companies. This revenue loss is offset to the extent that PSC further assesses other public service companies, as authorized under current law. PSC can likely complete the required studies and report with existing budgeted resources. Expenditures are not directly affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary/Current Law:

Telephone Company

Current Law: "Telephone company" means a public service company that (1) owns telephone lines to receive, transmit, or communicate telephone or teletype communications or (2) leases, licenses, or sells telephone or teletype communications. A telephone company does not include a cellular telephone company.

The Bill: The definition of "telephone company" is altered to mean a public service company that (1) owns telephone lines to receive, transmit, or communicate local exchange telephone services, exchange access telephone services, or teletype communications; (2) leases, licenses, or sells local exchange telephone services, exchange access telephone services, or teletype communications; or (3) owns telephone lines to receive, transmit, or communicate telephone services to inmate facilities. As under current law, it does not include a cellular telephone company.

Tariff Filings

Current Law: A public service company must file with PSC a tariff schedule of its rates and charges for its regulated services and for standard offer service. As ordered by PSC, a public service company must (1) plainly print the tariff schedule of its rates and charges for its regulated services; (2) make available the tariff schedules for public inspection; and (3) post the tariff schedules to make the tariff schedules readily accessible to and convenient for inspection by the public.

The Bill: Notwithstanding any other law, except as otherwise provided for in the bill, if PSC finds after notice and hearing that it is in the public interest, PSC may allow a telephone company that has 20,000 or fewer subscribers to provide a regulated service without requiring the company to file a tariff schedule of its rates and charges for the regulated service.

Alternative Form of Regulation

Current Law: Notwithstanding any other law, PSC may regulate a telephone company through alternative forms of regulation. PSC may adopt an alternative form of regulation if PSC finds, after notice and hearing, that the alternative form of regulation (1) protects consumers; (2) encourages the development of competition; and (3) is in the public interest. An alternative form of regulation may include price regulation, revenue regulation, ranges of authorized return, rate of return, categories of services, or price indexing.

The Bill: A telephone company that is regulated using an alternative form of regulation under current law for baskets of services is not required to file with PSC a tariff schedule of its rates and charges for its regulated retail services that are included in Basket 4 "Discretionary Services" and Basket 5 "Competitive Services."

Likewise, a telephone company that is *not* regulated using an alternative form of regulation for baskets of services is also not required to file with PSC tariff schedule of its rates and charges for its regulated retail services that, as determined by PSC, are similar to the services included in Basket 4 "Discretionary Services" and Basket 5 "Competitive Services."

Securities – Prior Approval

Current Law: Subject to specified conditions, without prior authorization from PSC, a public service company may not purchase, acquire, take, or hold any part of the capital stock of another public service company that operates in Maryland. Generally, without prior authorization of PSC, a public service company may not (1) assume or guarantee an obligation or liability with respect to stocks, bonds, securities, notes, or other evidence of indebtedness that is payable as a whole or in part to any person more than 12 months after the date of issuance or (2) issue stocks, bonds, securities, notes, or other evidence of indebtedness payable as a whole or in part more than 12 months after the date of issuance. Stocks, bonds, securities, notes, or other evidence of indebtedness must be issued in accordance with specified provisions.

The Bill: The above requirements do not apply to a merger of or transfer of stock or other ownership interest between a telephone company and another entity with a greater than 50% ownership in common with the telephone company.

Financing – Prior Approval

Current Law: Generally, a public service company must obtain authorization from PSC before the public service company (1) assumes or guarantees an obligation or liability with respect to stocks, bonds, securities, notes, or other evidence of indebtedness of any person that is payable wholly or partly more than 12 months after the date of the assumption or guarantee; (2) issues stocks, bonds, securities, notes, or other evidence of indebtedness that is payable wholly or partly more than 12 months after the date issued; or (3) lends money to an affiliate at rates or on terms that are significantly more favorable to the affiliate than the rates or terms that are otherwise commercially available to the affiliate. An issuance must conform to specified provisions. These provisions apply only to corporations that operate in the State.

The Bill: The above provisions do not apply to a transaction in which the capital stock of a telephone company is acquired by another entity with a greater than 50% ownership in common with the telephone company.

PSC Studies and Reporting Requirement

Under the bill, by September 1, 2015, PSC must study whether and how a telephone company should be authorized to withdraw a regulated retail service in the State and determine whether any changes are necessary to current regulations to ensure that customers are properly and conspicuously notified of a rate increase of a regulated retail service. PSC must report its findings and recommendations to the Senate Finance Committee and the House Economic Matters Committee.

Also by that same date, PSC must determine which regulated retail services for a telephone company that is not regulated using an alternative form of regulation are similar to the regulated retail services included in Basket 4 "Discretionary Services" and Basket 5 "Competitive Services."

Background: In regulating telecommunications, PSC reviews tariff filings and rate revisions, authorizes telephone and telegraph companies to provide new service offerings, and regulates the intrastate services of long distance ("interexchange") companies and companies that resell interexchange service. Verizon Maryland, Inc. (formerly Bell Atlantic – Maryland, formerly C&P Telephone) is the traditional provider of local telephone service in virtually all of Maryland. However, Verizon now faces competition from additional telephone companies providing facilities-based local service and telephone companies providing resold local service.

Via docketed cases, PSC has been considering various issues associated with Verizon including the appropriate forms of regulating telephone companies, service quality, bundled services, a proposed pricing tariff, and other factors dating back to at least 2006.

PSC advises that all Maryland telephone companies, except for Verizon, have 20,000 or fewer subscribers. Only Verizon is regulated by PSC under an alternative form of regulation as authorized under current law.

State Fiscal Effect: Special fund revenues for PURF decrease by $45,900 in fiscal 2017 and by $183,600 annually thereafter from reduced tariff filing fees and reduced assessments on telephone companies. This revenue loss is offset to the extent that PSC further assesses other public service companies, as authorized under current law. The annual amount for which PSC may assess a public service company is limited to 0.17% of the company's intrastate gross operating revenues for the previous year.

PSC advises that its ability to offset revenue reductions due to the bill is constrained by the fact that the current assessment is at the statutory cap of 0.17% and that, therefore, PSC may need to pursue an adjustment to the cap. Although expenditures are not directly affected, to the extent that special fund revenues decrease and PSC is unable to offset the reductions, PURF expenditures must decrease. PSC can likely complete the required studies and report with existing budgeted resources.

Additional Information

Prior Introductions: None.

Cross File: SB 207 (Senator Klausmeier, *et al.*) - Finance.

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

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Analysis by: Stephen M. Ross

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