

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 1131
Finance

(Senator Middleton)

Electric Cooperatives - Rate Regulation - Fixed Charges for Distribution System
Costs

This bill authorizes an electric cooperative, subject to specified conditions, to propose a fixed charge for the “fixed costs” associated with serving each electric cooperative’s retail electric customers. The Public Service Commission (PSC) must approve a proposed fixed charge that meets the requirements of the bill. The bill must be construed to apply only prospectively and may not be applied or interpreted to have any effect on or application to any order of PSC or any settlement agreement approved by PSC before the effective date of the bill.

Fiscal Summary

State Effect: PSC can handle the bill’s requirements with existing budgeted resources.

Local Effect: The bill does not materially affect local government finances or operations.

Small Business Effect: Potential minimal, as discussed below.

Analysis

Bill Summary: “Fixed cost” means all costs associated with an electric cooperative’s distribution system that do not vary by kilowatt-hour, including:

- meters, service lines, and minimum-sized transformers, wires, and poles that are typically installed by an electric cooperative to provide distribution services, or the maintenance of any of these items;
- direct customer expenses;

- administrative and general expenses related to the above items; and
- overhead loaders.

An electric cooperative may propose a fixed charge for the fixed costs associated with serving each of the electric cooperative's retail electric customers in either a base rate proceeding or a revenue-neutral rate design filing. The proposal must be supported by appropriate cost of service data and set a reasonable charge that reflects the different costs associated with serving small retail electric customers and large retail electric customers. A fixed charge may differ by rate class and the amount of retail electric customer load within each rate class.

An electric cooperative may not propose an increase to a fixed charge that is more than 25% greater than the fixed charge in effect one year before the effective date of the proposed increase.

A fixed charge must be applied in a nondiscriminatory manner under which a retail electric customer that participates in net energy metering or virtual net energy metering under current law is subject to the same fixed charge as a retail electric customer that does not participate in net energy metering or virtual net energy metering.

Current Law/Background: Most, if not all, electric bills in the State include as part of the cost of distribution service both a small fixed charge and usage-based charges. For example, the sample [residential bill](#) provided online by the Southern Maryland Electric Cooperative includes a "facilities charge" that does not change based on the amount of electricity used by the customer. In the sample bill, the facilities charge is \$9.50, and the usage-based distribution charge is about 4 cents per kilowatt-hour (there are other usage-based charges also included on the sample bill). The total distribution charge for a customer each month is the facilities charge plus the applicable usage-based charges.

Small Business Effect: The bill establishes a process to adjust fixed charges for electric cooperatives, which, to be revenue neutral, must also adjust to volumetric charges. This may provide a minimal benefit to some small businesses over other small businesses while still remaining – to an electric cooperative – revenue neutral. Assuming the intent of the bill is to increase fixed charges, small businesses with significant energy use are the most likely to benefit from reduced volumetric charges. However, many electric customers, including small businesses, could see little to no change in their electric costs.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Public Service Commission, Southern Maryland Electric Cooperative, Department of Legislative Services

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me/lgc

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