

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 984
Economic Matters

(Delegate Crosby)

Public Utilities - Electric Cooperatives - Rate Proceedings

This bill incorporates electric cooperatives into specified “make whole” rate proceedings held by the Public Service Commission (PSC) to determine whether additional revenues are required to earn a fair rate of return for certain relatively small public service companies. For an electric cooperative, the process considers the company’s debt service coverage ratio instead of a fair rate of return.

Fiscal Summary

State Effect: PSC and the Office of People’s Counsel, which participates in PSC proceedings, can handle the bill’s requirements with existing budgeted resources. Revenues are not affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law:

Public Service Company Rates – Generally

A public service company must charge just and reasonable rates for the regulated services that it renders. Generally, PSC has the power to set a just and reasonable rate of a public service company, as a maximum rate, minimum rate, or both. A “just and reasonable rate” means a rate that:

- does not violate any provision of the Public Utilities Article;
- fully considers and is consistent with the public good; and
- except for rates of a common carrier, will result in an operating income to the public service company that yields, after reasonable deduction for depreciation and other necessary and proper expenses and reserves, a reasonable return on the fair value of the public service company's property used and useful in providing service to the public.

At any time, PSC may investigate and determine the fair value of the property of a public service company used and useful in providing service to the public.

“Make Whole” Rate Proceedings

The following process applies to a gas company, electric company, telephone company, water company, or sewage disposal company whose gross annual revenues, for the most recent calendar year for which data is available, are less than 3% of the total gross annual revenues of all public service companies in the State during the same calendar year. The process does not apply in certain circumstances.

When PSC suspends a proposed new rate for an affected public service company that is based on the existing authorized fair rate of return, PSC must promptly institute proceedings to determine if additional revenues are required to allow the company to earn the existing fair rate of return. PSC must (1) serve each of the parties to the previous base rate proceeding of that company with a copy of the suspension order and (2) order the company to publish information about the proposal in newspapers of general circulation in its service area. The proceedings must:

- account for revenues, expenses, and rate base in the same manner that PSC employed in determining a just and reasonable rate in the previous base rate proceeding; and
- exclude consideration of any increase in the rate of return, any change in rate structure, or any change in an accounting approach to any item pertaining to revenues, expenses, or rate base inconsistent with that used by PSC in determining a just and reasonable rate in the previous base rate proceeding on the company.

PSC must enter a final order as to the revenue requirement determined under the proceedings within 90 days after the proposed new rate is filed. The final order must (1) authorize a new rate distributing any change in the revenue requirement proportionally among the ratepayers without change in the rate structure and (2) state whether further proceedings must be held.

If, in the final order, PSC decides to conduct further proceedings, then after a hearing, it may (1) modify the rate structure; (2) lower the authorized fair rate of return; or (3) modify the accounting approach to an item that pertains to revenues, expenses, or rate base. PSC must take any action on these further proceedings within 120 days after entry of a final order issued above, and the process is subject to additional specified requirements.

Additional Comments: There are four electric cooperatives in the State: Southern Maryland Electric Cooperative, Choptank Electric Cooperative, Somerset Rural Electric Cooperative, and A&N Electric Cooperative. In practice, PSC has limited jurisdiction over Choptank Electric Cooperative, as it is a “member-regulated cooperative” for the purposes of Title 5, Subtitle 6 of the Corporations and Associations Article. For electric cooperatives, debt service coverage ratio is used as a proxy for authorized rate of return.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

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

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km/lgc

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