STATE OF MARYLAND

PUBLIC SERVICE COMMISSION

January 27, 2022

Chairman C. T. Wilson
Economic Matters Committee
House Office Building, Room 231
Annapolis, MD 21401

RE: House Bill 228 – FAVORABLE – Public Service Commission – Rate Suspension Proceedings

Dear Chairman Wilson and Committee Members:

The Commission writes in strong support of House Bill 228, which will allow the Maryland Public Service Commission, the Technical Staff of the Public Service Commission, and other parties an enhanced opportunity to review and analyze the vast amount of forecasted data required in alternative forms of ratemaking. To date, the Commission has encountered two applications from utilities requesting alternative forms of rate making. Each of these proceedings presented three years of forecasted information in the development of rates, which presented significant challenges in analyzing the many components necessary to determine appropriate rates for the citizens of Maryland. These challenges can be tamed by extending the schedule of multi-year rate proceedings. HB 228 would provide the Commission an additional period of 90 days to evaluate the merits of a utility's multi-year rate plan.

Currently, Maryland law authorizes a six-month suspension period, in addition to a one-month notice period, to review a utility rate proceeding before a utility's proposed rates automatically take effect.[1] The suspension period provides crucial time for parties to analyze the merits of the proposed rates. Traditional rate proceedings are based on one historical test year, and the parties rely largely on data from a single-year test period. Multi-year rate

[1] The Public Utilities Article provides three time periods: (1) 30-day notice period; (2) 150-day suspension period; and (3) an optional additional 30 days of suspension. For alternative forms of ratemaking, such as multi-year rate cases, HB228 would provide an additional 90 days to the existing timeframe.

plans, however, require the Commission to analyze five different test years: the historical test year, a bridge year, and the three forecasted rate effective years. In addition to a longer period of data to review, by their nature multi-year rates rely heavily on forecasts and projections to develop the revenue requirement and rates for future periods. The forecasted data include projections of sales, customer counts, capital budgets and operating costs a utility expects to need in support of its future operations.

Reviewing forecasts requires additional time. Staff needs to understand the theoretical basis of the forecasts, the variables included in the forecasts, and how forecasts are adjusted for energy efficiency, electric vehicles or any other program. Also, Staff needs to be informed of all input data into the forecasts including the source of the data. The relationship between the forecasts and individual rate classes needs to be understood as well, with a comparison of tariff level forecasts with historical data provided as support for the validity of the forecast. This list is not exhaustive and provides an example of some of the information that must be vetted and verified by Commission Staff and other parties to provide a sound recommendation.

Multi-year rate plans will also become more complex over time when subsequent multi-year rate plans include prudency reviews of prior periods. In reviewing prudency, Staff will assess the utility's actual performance compared to the forecasted capital spend, operations and maintenance budgets, and benefits forecasted in the prior application. Thus, in addition to the five years associated with the new proposed rates, the Commission will be reviewing the actual spending of the prior three-year period. This prudency review may require a "true-up" or change to the utility's revenue requirement and/or rates.

In addition to the challenges of reviewing longer test periods and forecasting, a multi-year rate plan includes an annual reconciliation process that trues-up the ratemaking components for actual costs. This essential protection for ratepayers places additional analytical and procedural burdens on the Commission, Commission Staff, and all parties. From Staff's perspective, additional time to review rates is necessary to better probe and understand the decisions underlying utility budgets at the time rates are established. Ideally, better review in the rate case will reduce the variance between forecasts and actual results and reduce necessary true-ups. One of the key customer benefits of multi-year rates is rate stability and predictability; HB228 will ultimately help the Commission deliver that benefit to customers.

The Commission's experiences with multi-year rate plans have shown that the additional three months that HB 228 provides is essential. Multi-year rate plans add complexities that require more analysis than is needed for a traditional rate case. These complexities necessitate that the Commission have additional time to review and analyze forecasts and projections. Future multi-year rate cases will be increasingly complex as prudency reviews are included in the analysis. Finally, insufficient rate case review will result in rate instability for customers and undermine one of the largest customer benefits of longer rate effective periods. For the above reasons, the Commission respectfully requests that the Committee grant a favorable report for HB 228.

Thank you for your consideration of this information. Please contact Lisa Smith, Director of Legislative Affairs, at (410) 336-6288 if you have any questions.

Sincerely,

Jason M. Stanek
Chairman