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HB 984: Public Utilities – Electric Cooperatives – Rate Proceedings

Committee: House Economic Matters

Position: Support

Southern Maryland Electric Cooperative (SMECO), a member-owned electric cooperative and not-for-profit organization based in Hughesville that provides electricity to more than 175,000 member accounts in Charles, St. Mary’s, Calvert and southern Prince George’s County, supports HB 984.

The bill would permit SMECO to take advantage of an existing, administratively-streamlined process for updating distribution rates that is regularly used by small investor-owned gas companies (*e.g.*, Columbia Gas of Maryland, Inc.) and municipal utilities (*e.g.*, Easton Utilities Commission) that develop rates based upon a “rate of return” methodology. Under current law, a utility company regulated by the Maryland Public Service Commission (the “Commission”) whose gross annual revenues are less than 3% of the total gross annual revenues of all public service companies may file what is known as a “make whole” rate proceeding. *See* Md. Ann. Code, Pub. Utils. Art. § 4-207. As it stands today, this administratively-streamlined proceeding requires the Commission to determine if additional revenues are required to meet a fair rate of return authorized by the Commission in the previous base rate case proceeding.

Expansion of the statute to include electric cooperatives is warranted because (1) SMECO is very close to the 3 percent cutoff in the existing law (SMECO accounted for 3.8 percent of the total gross annual revenues of all public service companies in 2023), and (2) consistent with other not-for-profit, electric cooperatives, SMECO uses a debt service coverage ratio to establish just and reasonable rates, as opposed to a “fair rate of return,” which is the methodology used by investor-owned utilities to address shareholder expectations. Rate cases cost a lot of money, time, and resources to litigate for all involved stakeholders (*i.e.*, not just the utility) – costs that are borne ultimately by SMECO’s

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ratepayers/customer-members and taxpayers. This administratively-streamlined process will save money for everyone and help further maintain the financial health and wellbeing of SMECO, as a not-for-profit electric cooperative. Importantly, the bill does not in any way diminish the ability of the Commission and interested parties, including the Maryland Office of People’s Counsel, to fully review any application submitted by SMECO for a modification to its electric distribution rates.

As noted above, in addition to adding “electric cooperatives” to the statute, HB 984 will also add “Debt Service Coverage Ratio” (DSC Ratio) as an appropriate methodology for calculating a new rate for an electric cooperative, as opposed to relying solely up a “rate of return,” which is not commonly used to calculate rates for not-for-profit cooperatives like SMECO. The DSC Ratio is the means by which a cooperative’s financial health is measured. In a nutshell, the DSC Ratio is an important indicator if a company has adequate coverage to meet its ongoing debt service payments, which includes both principal and interest. A DSC Ratio of 2.0, for example, means that the cooperative has twice as much incoming revenue as it holds in debt.

The immediate practical application of HB 984 is that SMECO would be allowed to file a “make whole” rate proceeding using the DSC Ratio of 1.80 authorized by the Commission in Case No. 9738, Order No. 91430 (2024) at some point within a 3-year period following the entry of that Commission Order (*i.e.*, up until November 27, 2027). As a not-for-profit, electric cooperative focused 100% on the interests of its customer-members and the provision of safe, reliable, and affordable electric service, SMECO only files rate cases when absolutely necessary to maintain the financial health and wellbeing of the utility. In that regard, nothing would change with the passage of HB 984, and SMECO would only file a “make whole” rate proceeding if there arises a significant mismatch between costs and revenues.

Finally, it is also important to note that HB 984 preserves all customer protections in place today related to rate case proceedings, including requirements for publication/notice and public hearings.

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