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BILL NO.: House Bill 890
Natural Gas
Strategic Infrastructure Development and Enhancement
Surcharge and Plans

COMMITTEE: Economic Matters

HEARING DATE: February 18, 2021

SPONSOR: Delegate Davis

POSITION: Oppose

House Bill (HB) 890 would amend PUA § 4-210 (the STRIDE law) in two respects. First, HB 890 would raise the residential monthly surcharge cap from \$2.00 to \$2.50. Second, HB 890 would move “eligible infrastructure project costs collected previously under a surcharge” into base rates at the time of each annual rate change within a multi-year rate plan (“MRP”). This differs from the process described in the current version of the STRIDE law, which provides only that a utility may move “eligible infrastructure project costs” into base rates in a “base rate case.”

The Office of People’s Counsel (OPC) opposes these two proposed changes to the STRIDE law. The impact of the STRIDE law has never been assessed; any expansion of the program should not occur without such an assessment. OPC therefore would support a study to quantify and examine the benefits of STRIDE and to assess whether those benefits justify increased collection of STRIDE costs from customers.

A. A Brief Overview of the STRIDE Law

Enacted in 2013, the STRIDE law permits Maryland’s gas distribution utilities to submit 5-year infrastructure replacement plans to the Maryland Public Service Commission (Commission). The STRIDE law is intended to incent the replacement of

aging gas distribution infrastructure by providing utilities with advance recovery of the costs of the replacement projects. Specifically, the STRIDE law allows utilities to include a monthly surcharge on customer bills to recover the estimated costs of such projects contemporaneously with, or even before, the execution of the projects. The amount of the monthly surcharge is determined shortly before the beginning of each calendar year and, with some limited exceptions, remains the same for each month in the following calendar year. The amount of the monthly surcharge for a given calendar year is based on the work planned in that year and its estimated cost.

The STRIDE law provides that the surcharge may not exceed \$2.00/month on residential customer bills. While the STRIDE law does not provide a stated dollar amount for the cap on other customer classes' surcharges (for example, commercial and industrial customers), the law provides "[t]o create a surcharge cap for all customer classes, costs shall be allocated to nonresidential and residential customers consistent with the proportions of total distribution revenues that those classes bear in accordance with the most recent base rate proceeding for the gas company." PUA § 4-210(d)(4)(ii). Thus, any increase to the \$2.00/month residential surcharge cap would also result in an increase to the cap for *all other* customer classes.

When a utility reaches the surcharge cap, that does not mean that the utility will be unable to recover the costs of its STRIDE investments. Rather, it means only that for those costs above the cap, the utility must wait until its next base rate case to begin recovering them.

The STRIDE law provides that within five years of the implementation of a STRIDE plan, a utility must file a base rate case. In a base rate case, all a utility's costs and expenses are adjusted to reflect recent historic cost data, with certain adjustments. When a utility with a STRIDE plan files a base rate case, all the STRIDE investments included in the STRIDE surcharge are reviewed for prudence. If the Commission determines that the investments were prudent, the costs are moved out of the surcharge and into the utility's rate base. This movement of costs from the surcharge to rate base has the effect of reducing the STRIDE surcharge, which makes it less likely that a STRIDE utility will hit the surcharge caps.

At present, three Maryland gas distribution utilities have gas infrastructure replacement plans under STRIDE – Baltimore Gas and Electric Company (BGE), Washington Gas Light Company (Washington Gas), and Columbia Gas of Maryland, Inc. (Columbia).

B. Increasing the Residential Monthly Surcharge Cap From \$2.00 to \$2.50.

With respect to the proposed increase to the residential surcharge cap, OPC notes that for some Maryland customers, the effect would be immediate. The following table

sets forth the current 2021 STRIDE surcharge amount for each utility and the uncapped amount, if applicable.

	2021 STRIDE Monthly Residential Surcharge Amount	2021 STRIDE Uncapped Monthly Residential Surcharge Amount
BGE	\$0.64	n/a
Washington Gas	\$1.64	n/a
Columbia Gas	\$2.00	\$2.83

As the above table reflects, HB 890’s proposed increase to the residential surcharge cap would immediately raise the monthly amount of the STRIDE surcharge that Columbia Gas’s residential customers pay to \$2.50/month (by 25%). In turn, the monthly amount of the STRIDE surcharge that Columbia’s other customer classes pay would also immediately rise by 25%.¹

As for BGE, the proposed increase to the residential class would impact BGE customers beginning in 2022. While BGE’s residential 2021 STRIDE surcharge is only \$0.64, BGE revealed in its recent multi-year rate plan (MRP) case before the Commission that it projects it will hit the surcharge cap in 2022 based on its planned STRIDE activities. If that occurs, BGE’s residential customers will face a surcharge greater than \$2.00/month beginning in January 2022 under HB 890.

As for Washington Gas, it is less clear when it may hit the cap. While Washington Gas’s 2021 residential surcharge is approaching the \$2.00 cap, it presently has a base rate case pending before the Commission, through which many of its STRIDE projects will be transferred to rate base. This transfer of costs to rate base will lower the amount of the surcharge by reducing the costs included in the surcharge calculation.

In sum, the proposed increase to the residential surcharge cap, and its cascading effect on the surcharge caps of other rate classes, will have near term effects on the customers of both Columbia Gas and BGE, and could possibly soon affect Washington Gas’s customers too.

OPC also notes the absence of any analysis quantifying the benefits of STRIDE in relation to its costs that would justify an increase to the surcharge cap. OPC does not dispute that the replacement of aging infrastructure results in safety benefits. Moreover, the annual external audits of the three STRIDE utilities quantify certain additional claimed benefits of STRIDE, including the costs savings associated with reduced leak repairs, and

¹ Those increases could have a significant impact on the Western Maryland business community. For example, Columbia’s high usage commercial and industrial customers currently pay a 2021 STRIDE surcharge of \$716.93/month. Under HB 890, that amount would increase by approximately \$180/month to \$896.16.

greenhouse gas reductions. However, OPC is unaware of any analysis by the Commission, the utilities, or any other stakeholder examining these benefits relative to STRIDE costs and supporting the idea that customers should pay more for STRIDE.

OPC's position is that any increase to the STRIDE surcharge caps should be supported by a study quantifying and examining the benefits of STRIDE and assessing whether they justify increased collection of STRIDE costs from customers.

C. Removing Costs From The Surcharge at The Time of Annual Rate Changes Within a Multi-Year Rate Plan.

When the Commission approves a multi-year rate plan, it approves up to three years of rates, with the rate levels increasing after each year to reflect projected increased utility spending. HB 890 would automatically move all a utility's STRIDE spending from the STRIDE surcharge to base rates whenever rates change within an MRP. This movement of costs from the surcharge to rate base would have the effect of reducing the STRIDE surcharge, which makes it less likely that a STRIDE utility will hit the surcharge caps.

The Commission has cited "added transparency" as one of the drivers behind its adoption of MRPs. This aspect of HB 890 is inconsistent with that goal.

In its recent MRP case, BGE sought to include all STRIDE costs up to the cap in the surcharge, but then recover any amounts over the cap through base rates. BGE projected that this would be necessary in 2022 and 2023. The Commission rejected this proposal on the basis that it lacked transparency.

The Commission further finds that BGE's proposal to place some or all of its STRIDE costs in the MRP lacks transparency. The General Assembly required that the surcharge be visible to customers. Placing STRIDE projects directly into the base rate circumvents that transparency by requiring the Commission to approve advanced recovery of STRIDE projects with no visibility to customers, instead mixing STRIDE costs inextricably with all the other elements of BGE's rates.²

Throughout the course of an MRP, the customers of gas companies with STRIDE programs would have a line item on their bills showing the amount of the STRIDE surcharge. If "eligible infrastructure project costs collected previously under a surcharge" were annually moved to base rates by operation of law, that would mask the total amount of STRIDE costs in rates and make it far less clear to customers how much they were paying for STRIDE costs. In the words of the Commission, STRIDE costs would be mixed

² Maryland Public Service Commission Order 89678 (Case No. 9645) *Application of Baltimore Gas and Electric Company for an Electric and Gas Multi-Year Plan* (December 16, 2020) p. 29, ¶ 60.

“inextricably with all the other elements of BGE’s rates.” HB 890 would remove the “visibility” that the STRIDE surcharge provides.

In response to this concern, one may point to the Commission’s separate observation that “[t]he Commission can and has moved STRIDE charges into base rates such that the base rates plus new STRIDE charges impose a burden greater than \$2 per month per residential ratepayer.”³ However, HB 890 would enable a process far different than what has occurred historically.

Historically, when a utility moves STRIDE plant into base rates in a base rate case, the costs are first reviewed for prudence by the Commission. As such, they take on a different status. They are no longer “eligible infrastructure project costs collected previously under a surcharge.” They are now prudently incurred historic capital costs. With this proposal, no prudence review would occur. The costs would move from the STRIDE surcharge to base rates automatically without any qualitative review. They are still STRIDE costs awaiting a prudence review, but their removal from the surcharge would remove their identification as such.

By amending to STRIDE law to move “eligible infrastructure project costs collected previously under a surcharge” into base rates at the time of each annual rate change within a multi-year rate plan, HB 890 is inconsistent with the Commission’s transparency goals and leaves customers less informed.

³ Order 89678, *supra*, at pp. 27-28, ¶ 58.