

**STATE OF MARYLAND
OFFICE OF PEOPLE'S COUNSEL**

Paula M. Carmody, People's Counsel

6 St. Paul Street, Suite 2102
Baltimore, Maryland 21202
410-767-8150; 800-207-4055
www.opc.state.md.us

BILL NO: **HOUSE BILL 1278**
Electric Companies—Rates—Decoupling
Revenues and Sales

COMMITTEE: **Economic Matters**

HEARING DATE: **March 23 2011**

SPONSORS: **Delegates Hucker *et al.***

POSITION: **Support with Amendment**

House Bill 1278 prohibits the Public Service Commission (PSC) from authorizing electric companies to use a billing formula commonly called a “bill stabilization adjustment (BSA)” in the event of extended electric service disruptions. Maryland’s major electric utilities currently have BSAs in place. The intent of the BSA is to serve a number of public policies. Chief among the policy reasons for having BSAs in place is to decouple a company’s revenues from sales of kilowatt hours, thus removing an electric company’s major disincentive to participate fully in demand side management and energy efficiency measures mandated by law (EmPower Maryland). BSAs also act to smooth out bill variations caused by weather extremes.

BSAs were not intended to reward certain companies in the event they acted deficiently in addressing outages quickly and efficiently. However, as BSAs are currently structured for electric utilities, the BSA may allow companies to recoup revenues lost during extended outages, providing a disincentive to restore service as quickly as

possible. In effect, the companies will still be paid for distribution revenues whether they provide service or not. The Office of People's Counsel (OPC) believes that companies should not be rewarded with recovery of lost revenues during extended outages. In January, 2011, OPC filed a letter with the PSC asking the PSC to address this issue with respect to PEPCO's BSA. On February 1, 2011, the PSC instituted Case No. 9257 to investigate whether PEPCO's BSA should be modified to address the issue of recovery of revenues during extended outages. Since then, it has instituted similar proceedings for SMECO, Delmarva and BGE. (Case Nos. 9258, 9259, 9260). These cases are scheduled for a PSC hearing on July 22, 2011.

The Office of People's Counsel SUPPORTS House Bill 1278. However, OPC recommends that the Bill be amended to make it consistent with current regulatory practice in Maryland. Maryland residential customers, particularly those in the Washington, D.C. suburbs, have increasingly been subjected to frequent and sustained electric supply outages in recent years as a result of storms and other severe weather. Increasingly, residential customers also appear to be experiencing longer than usual waiting time for outages to be resolved. It is essential that electric companies meet high standards of service reliability on a daily basis and in response to outages resulting from storms, extreme weather or other unusual circumstances. As noted above, because electric companies with BSAs collect distribution revenues even when no power is being delivered during an extended outage, the existence of the BSA may provide a disincentive to quick restoral.

While the Bill attempts to remedy this disincentive, parts of the Bill are unduly complicated and may violate the legal proscription against retroactive ratemaking.

Therefore, OPC proposes that Section C be stricken in its entirety. (Page 2, line 8 through page 3, line 4). In OPC's view, a complete suspension of decoupling during an extended outage, as contemplated by the Bill, will provide the appropriate incentive for a company to restore service as soon as is safe and practicable.