

# HOUSE BILL 653

C5, M5

9lr1791  
CF SB 572

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By: **Delegates D.E. Davis, Branch, Brooks, Valderrama, and Wilson**

Introduced and read first time: February 6, 2019

Assigned to: Economic Matters

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Committee Report: Favorable with amendments

House action: Adopted

Read second time: March 11, 2019

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## CHAPTER \_\_\_\_\_

1 AN ACT concerning

2 **Electric Companies and Gas Companies – Rate Regulation – Alternative Rate**  
3 **Plans**

4 FOR the purpose of requiring the Public Service Commission to allow an electric company  
5 or a gas company to apply for a certain alternative rate plan in a certain manner;  
6 requiring the Commission to allow an electric company or a gas company to utilize a  
7 certain alternative rate plan to establish certain new rates if the Commission finds  
8 that the plan results in a just and reasonable rate; declaring the intent of the General  
9 Assembly; requiring the Commission to state specific reasons for rejecting an  
10 alternative rate plan; requiring the Commission to allow an applicant to file a revised  
11 alternative rate plan to remedy certain deficiencies within a certain number of days;  
12 requiring the Commission to review a certain revised alternative rate plan and solicit  
13 comments from interested parties; requiring the Commission to issue a final order  
14 concerning a revised alternative rate plan within a certain number of days;  
15 authorizing an electric company or a gas company to file an alternative rate plan  
16 that provides for certain performance standards; requiring the Commission to  
17 provide a certain financial incentive if the Commission provides for a certain  
18 financial penalty for failure to meet a certain performance standard; authorizing an  
19 initial alternative rate plan to provide for an initial rate effective period of less than  
20 a certain number of months to align with the fiscal year of the company; requiring  
21 an alternative rate plan to provide for the incorporation of adjustment amounts from  
22 certain revenue decoupling for certain customer classes; authorizing an alternative  
23 rate plan to create a certain regulatory asset that includes the deferral of certain  
24 storm restoration expenses with a certain unamortized balance for a certain purpose;  
25 requiring an alternative rate plan that uses a certain formula rate to provide for a

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EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

~~Strike out~~ indicates matter stricken from the bill by amendment or deleted from the law by amendment.



1 certain annual customer rate reconciliation for a certain purpose; requiring a certain  
2 reconciliation to reflect certain actual costs; requiring a certain interest rate for a  
3 certain reconciliation; authorizing an electric company or a gas company to continue  
4 to recover certain costs through riders or surcharges under certain circumstances;  
5 ~~prohibiting the Commission from reducing the return on equity applied to an electric~~  
6 ~~company or a gas company based on the election of the company to propose an~~  
7 ~~alternative rate plan; prohibiting the approval of an alternative rate plan from~~  
8 ~~affecting the recovery of certain costs; authorizing an electric company or a gas~~  
9 ~~company to terminate an alternative rate plan at any time; requiring an electric~~  
10 ~~company or a gas company that terminates an alternative rate plan to state the~~  
11 ~~reason for termination; requiring certain rates under a terminated alternative rate~~  
12 ~~plan to remain in effect until the Commission establishes certain new rates in a~~  
13 ~~certain manner; prohibiting an electric company or a gas company from filing an~~  
14 application for approval of an alternative rate plan before a certain date; defining  
15 certain terms; and generally relating to the Public Service Commission and rates for  
16 electric and gas companies.

17 BY adding to

18 Article – Public Utilities

19 Section 4–212

20 Annotated Code of Maryland

21 (2010 Replacement Volume and 2018 Supplement)

22 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,

23 That the Laws of Maryland read as follows:

24 **Article – Public Utilities**

25 **4–212.**

26 (A) (1) IN THIS SECTION THE FOLLOWING WORDS HAVE THE MEANINGS  
27 INDICATED.

28 (2) “ALTERNATIVE RATE PLAN” MEANS A PLAN TO ESTABLISH NEW  
29 BASE RATES FOR AN ELECTRIC COMPANY OR A GAS COMPANY THAT INCLUDE THE  
30 USE OF:

31 (I) A FULLY FORECASTED TEST YEAR; OR

32 ~~(II) MULTIVEAR RATES;~~

33 ~~(III)~~ (II) FORMULA RATES; ;

34 ~~(IV) RATE DESIGNS;~~

35 ~~(V) OTHER RATE PLANS; OR~~

~~(VI) A COMBINATION OF RATE PLANS THAT MEET THE REQUIREMENTS OF THIS SECTION.~~

(3) "FORMULA RATE" MEANS A RATE THAT IS PERIODICALLY ADJUSTED BASED ON A PREDETERMINED FORMULA AND SUBJECT TO ANNUAL RECONCILIATION ADJUSTMENTS.

(4) "FULLY FORECASTED TEST YEAR" MEANS A RATE THAT IS BASED ON FORECASTED COSTS, INVESTMENTS, AND BILLING DETERMINANTS FOR THE EFFECTIVE PERIOD OF THE RATE.

~~(5) "MULTIYEAR RATE" MEANS A RATE THAT:~~

~~(I) IS DESIGNED TO ACHIEVE REVENUE REQUIREMENTS FOR A MULTIYEAR PERIOD, NOT TO EXCEED 5 3 YEARS; AND~~

~~(II) AUTHORIZES PERIODIC CHANGES IN BASE RATES, INCLUDING ADJUSTMENTS FOR INFLATION AND CAPITAL INVESTMENTS.~~

~~(6) (I) "RATE DESIGN" MEANS THE METHOD USED BY AN ELECTRIC COMPANY OR A GAS COMPANY TO CHARGE FOR ELECTRIC OR GAS SERVICE AND PRODUCE THE REVENUES NECESSARY TO RECOVER THE COSTS OF SERVING EACH CUSTOMER RATE CLASS.~~

~~(II) "RATE DESIGN" INCLUDES A METHOD DESIGNED TO RECOVER FIXED AND VARIABLE COSTS CONSISTENT WITH HOW THE COSTS ARE INCURRED.~~

(B) IT IS THE INTENT OF THE GENERAL ASSEMBLY THAT THE COMMISSION ADOPT PROPOSALS BY ELECTRIC COMPANIES OR GAS COMPANIES TO ESTABLISH NEW BASE RATES THAT USE ALTERNATIVE RATE PLANS THAT CONFORM WITH THIS SECTION.

(C) (1) IN ACCORDANCE WITH §§ 4-203 AND 4-204 OF THIS SUBTITLE, THE COMMISSION SHALL ALLOW AN ELECTRIC COMPANY OR A GAS COMPANY TO:

(I) FILE FOR NEW BASE RATES SIMULTANEOUSLY WITH THE PROPOSED ALTERNATIVE RATE PLAN; AND

(II) USE AN ALTERNATIVE RATE PLAN COVERING ITS FULL COST OF SERVICE TO ESTABLISH NEW BASE RATES, IF THE COMMISSION FINDS THAT THE ALTERNATIVE RATE PLAN RESULTS IN A JUST AND REASONABLE RATE.

(2) IF THE COMMISSION, IN ACCORDANCE WITH §§ 4-203 AND 4-204 OF THIS SUBTITLE, REJECTS AN APPLICATION FOR APPROVAL OF AN ALTERNATIVE RATE PLAN FILED BY AN ELECTRIC COMPANY OR A GAS COMPANY, THE COMMISSION SHALL:

(I) STATE THE SPECIFIC REASONS FOR THE REJECTION;

(II) WITHIN ~~60~~ 90 DAYS AFTER THE COMMISSION ORDER REJECTING THE PROPOSED ALTERNATIVE RATE PLAN, ALLOW THE APPLICANT TO FILE A REVISED ALTERNATIVE RATE PLAN TO REMEDY THE STATED DEFICIENCIES;

(III) REVIEW ANY REVISED ALTERNATIVE RATE PLAN; AND

(IV) SOLICIT COMMENTS FROM INTERESTED PARTIES.

(3) WITHIN ~~60~~ 90 DAYS AFTER THE FILING OF A REVISED ALTERNATIVE RATE PLAN, THE COMMISSION SHALL ISSUE A FINAL ORDER CONCERNING THE REVISED PLAN.

(D) (1) AN ELECTRIC COMPANY OR A GAS COMPANY MAY FILE AN ALTERNATIVE RATE PLAN THAT PROVIDES FOR PERFORMANCE STANDARDS, SUBJECT TO THE APPROVAL OF THE COMMISSION, THAT ARE DESIGNED TO ACHIEVE IMPROVEMENT OR SUSTAIN RESULTS IN ELECTRIC COMPANY OR GAS COMPANY RELIABILITY AND CUSTOMER SATISFACTION.

(2) IF THE COMMISSION PROVIDES FOR A FINANCIAL PENALTY FOR A COMPANY'S FAILURE TO MEET A PERFORMANCE STANDARD APPROVED UNDER PARAGRAPH (1) OF THIS SUBSECTION, THE COMMISSION SHALL ALSO PROVIDE A COMPARABLE FINANCIAL INCENTIVE FOR A COMPANY EXCEEDING ANY APPROVED PERFORMANCE STANDARD.

(E) AN INITIAL ALTERNATIVE RATE PLAN FILED BY AN ELECTRIC COMPANY OR A GAS COMPANY MAY PROVIDE FOR AN INITIAL RATE EFFECTIVE PERIOD OF LESS THAN 12 MONTHS TO ALIGN WITH THE FISCAL YEAR OF THE COMPANY.

(F) FOR CUSTOMER CLASSES THAT ARE SUBJECT TO REVENUE DECOUPLING, AN ALTERNATIVE RATE PLAN SHALL PROVIDE FOR THE INCORPORATION OF ADJUSTMENT AMOUNTS FROM REVENUE DECOUPLING MECHANISMS APPROVED BY THE COMMISSION.

(G) TO MITIGATE POTENTIAL YEAR-TO-YEAR CUSTOMER RATE VOLATILITY RELATED TO STORM RESTORATION, AN ALTERNATIVE RATE PLAN MAY CREATE A REGULATORY ASSET, SUBJECT TO COMMISSION APPROVAL, THAT INCLUDES THE DEFERRAL OF OPERATING AND MAINTENANCE EXPENSES RELATED TO

1 RESTORATION ACTIVITIES FOR STORM OUTAGE EVENTS WITH THE UNAMORTIZED  
2 BALANCE RECEIVING RATE BASE TREATMENT.

3 (H) (1) AN ALTERNATIVE RATE PLAN ~~THAT USES A FORMULA RATE~~ SHALL  
4 PROVIDE FOR AN ANNUAL CUSTOMER RATE RECONCILIATION THAT RECONCILES  
5 WITH INTEREST THE REVENUE REQUIREMENT REFLECTED IN RATES FOR THE PRIOR  
6 CALENDAR YEAR TO ENSURE THAT CUSTOMERS ARE CHARGED RATES THAT  
7 REFLECT ONLY THE ACTUAL COSTS INCURRED BY THE ELECTRIC COMPANY OR GAS  
8 COMPANY.

9 (2) A RECONCILIATION UNDER THIS PARAGRAPH SHALL REFLECT  
10 ACTUAL COSTS FOR THE PRIOR CALENDAR YEAR AND YEAR-END VALUES FOR RATE  
11 BASE.

12 (3) THE INTEREST RATE THAT APPLIES TO A RECONCILIATION UNDER  
13 THIS PARAGRAPH SHALL BE THE WEIGHTED AVERAGE COST OF CAPITAL FOR THE  
14 ELECTRIC OR GAS COMPANY, AS APPROVED BY THE COMMISSION, ADJUSTED FOR  
15 TAXES.

16 (I) IF THE SAME COSTS ARE NOT SIMULTANEOUSLY RECOVERED THROUGH  
17 AN ALTERNATIVE RATE PLAN, AN ELECTRIC COMPANY OR A GAS COMPANY MAY  
18 CONTINUE TO RECOVER COSTS THROUGH RIDERS OR SURCHARGES APPROVED BY  
19 THE COMMISSION.

20 ~~(J) THE COMMISSION MAY NOT REDUCE THE RETURN ON EQUITY APPLIED~~  
21 ~~TO AN ELECTRIC COMPANY OR A GAS COMPANY BASED ON THE ELECTION OF AN~~  
22 ~~ELECTRIC OR GAS COMPANY TO PROPOSE AN ALTERNATIVE RATE PLAN.~~

23 ~~(K) THE APPROVAL OF AN ALTERNATIVE RATE PLAN MAY NOT AFFECT THE~~  
24 ~~RECOVERY OF SUPPLY OR TRANSMISSION RELATED COSTS.~~

25 ~~(L) (1) AN ELECTRIC COMPANY OR A GAS COMPANY MAY TERMINATE AN~~  
26 ~~ALTERNATIVE RATE PLAN AT ANY TIME.~~

27 ~~(2) IF AN ELECTRIC COMPANY OR A GAS COMPANY TERMINATES AN~~  
28 ~~ALTERNATIVE RATE PLAN;~~

29 ~~(I) THE ELECTRIC COMPANY OR GAS COMPANY SHALL STATE~~  
30 ~~THE REASON FOR THE TERMINATION; AND~~

31 ~~(II) THE RATES IN EFFECT AT THE TIME OF THE TERMINATION~~  
32 ~~SHALL REMAIN IN EFFECT UNTIL THE COMMISSION ESTABLISHES NEW BASE RATES~~  
33 ~~FOR THE ELECTRIC COMPANY OR GAS COMPANY IN ACCORDANCE WITH §§ 4-203~~  
34 ~~AND 4-204 OF THIS SUBTITLE.~~

1           SECTION 2. AND BE IT FURTHER ENACTED, That an electric company or a gas  
2 company may not file an application for approval of an alternative rate plan before October  
3 1, ~~2019~~ 2020.

4           SECTION 3. AND BE IT FURTHER ENACTED, That this Act shall take effect  
5 October 1, 2019.

Approved:

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Governor.

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Speaker of the House of Delegates.

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President of the Senate.