

Department of Legislative Services  
Maryland General Assembly  
2017 Session

FISCAL AND POLICY NOTE  
First Reader

Senate Bill 771  
Finance

(Senator Middleton, *et al.*)

---

Electric Cooperatives - Rate Regulation - Fixed Charges for Distribution System  
Costs

---

This bill authorizes an electric cooperative, subject to specified conditions, to propose a fixed charge for the “fixed costs” associated with serving each electric cooperative’s retail electric customers. The Public Service Commission (PSC) *must* approve a proposed fixed charge that meets the requirements of the bill. The bill must be construed to apply only prospectively and may not be applied or interpreted to have any effect on or application to any order of PSC or any settlement agreement approved by PSC before the effective date of the bill.

---

Fiscal Summary

**State Effect:** PSC can handle the bill’s requirements with existing budgeted resources.

**Local Effect:** The bill does not materially affect local government finances or operations.

**Small Business Effect:** Potential minimal, as discussed below.

---

Analysis

**Bill Summary:** “Fixed cost” means all costs associated with an electric cooperative’s distribution system that do not vary by kilowatt-hour, including:

- meters, service lines, and minimum-sized transformers, wires, and poles that are typically installed by an electric cooperative to provide distribution services, or the maintenance of any of these items;
- direct customer expenses;

- administrative and general expenses related to the above items; and
- overhead loaders.

An electric cooperative may propose a fixed monthly charge for the fixed costs associated with serving each of the electric cooperative's retail electric customers in either a base rate proceeding or a revenue-neutral rate design filing. The proposal must be supported by appropriate cost of service data and set a reasonable charge that reflects the different costs associated with serving small retail electric customers and large retail electric customers. A fixed charge may differ by rate class and the amount of retail electric customer load within each rate class.

An electric cooperative may not propose an increase to a fixed charge that is more than \$2.50 greater than the fixed charge in effect one year before the effective date of the proposed increase.

A fixed charge must be applied in a nondiscriminatory manner under which a retail electric customer that participates in net energy metering or virtual net energy metering under current law is subject to the same fixed charge as a retail electric customer that does not participate in net energy metering or virtual net energy metering.

**Current Law/Background:** Most, if not all, electric bills in the State include as part of the cost of distribution service both a small fixed charge and usage-based charges. For example, the sample [residential bill](#) provided online by the Southern Maryland Electric Cooperative (SMECO) includes a "facilities charge" that does not change based on the amount of electricity used by the customer. In the sample bill, the facilities charge is \$9.50, and the usage-based distribution charges total about 5 cents per kilowatt-hour (there are other usage-based charges also included on the sample bill). The total distribution charge for a customer each month is the facilities charge plus the applicable usage-based charges.

#### *Studies Related to Fixed Charges for Electric Cooperative Customers*

Two studies were conducted over the 2016 interim that relate to the bill, with final reports issued in January 2017. As discussed below, some of the conclusions of the two studies vary substantially.

At the request of the Senate Finance Committee and the House Economic Matters Committee, PSC reviewed the implications of permitting an electric cooperative to increase its fixed charge (by up to 25% each year) for purposes of aligning the collection of fixed and usage charges with actual system costs, in accordance with the provisions of Senate Bill 1131 of 2016, which did not pass. SMECO and Choptank Electric Cooperative (Choptank) commissioned a separate study on these same general issues.

*The Public Service Commission Study:* PSC engaged the services of a consultant to conduct the majority of the study. PSC’s [final report](#) to the committee can be found on PSC’s website along with the consultant’s [report](#). PSC’s report highlighted several of the consultant’s findings, including:

- that higher fixed charges would result in higher bills for low-usage customers of both SMECO and Choptank, with the opposite effect for high-usage customers;
- that about half of customers receiving assistance from the Electric Universal Service Program would experience higher bills as a result of higher fixed charges;
- that cost shifting likely occurs between net metered and non-net metered customers of the cooperatives, and that higher fixed charges would reduce the potential for cost shifting; and
- the potential for higher fixed charges to distort efficient price signals and to reduce the incentive for customer participation in energy efficiency programs.

PSC advised in its final report that there was no consensus among written comments provided by the various stakeholders and that PSC takes no position with respect to the alternative rate design options presented in the consultant’s report. Except for the difference in the allowed fixed charge increase, this bill is essentially identical to Senate Bill 1131 of 2016. PSC advises that the findings of the consultant’s report remain largely applicable to this bill.

*The Southern Maryland Electric Cooperative and the Choptank Electric Cooperative Study:* The study commissioned by SMECO and Choptank found that allowing the cooperatives to increase the fixed charge component of their residential rate by up to 25% would result in “a fairer rate design that reduces subsidies, improves price signals, and does *not* adversely affect low-income members, or energy efficiency goals.” More specifically, the study found that the cooperatives’ low-income customers are not adversely affected by fixed charge increases because their low-*income* customers are not their low-*usage* customers. The study also noted that the fixed charges of SMECO and Choptank were significantly less than other cooperatives’ fixed charges.

**Small Business Effect:** The bill establishes a process to adjust fixed charges for electric cooperatives, which, to be revenue neutral, must also adjust volumetric charges. This may provide a minimal benefit to some small businesses over other small businesses while still remaining – to an electric cooperative – revenue neutral. Assuming the intent of the bill is to increase fixed charges (by up to \$2.50 per month from the previous year’s amount), small businesses with significant energy use are the most likely to benefit from reduced volumetric charges. However, many electric customers, including small businesses, could see little to no change in their electric costs.

## Additional Information

**Prior Introductions:** SB 1131 of 2016, a similar bill, received a hearing from the Senate Finance Committee, but no further action was taken.

**Cross File:** HB 996 (Delegate Jameson, *et al.*) - Economic Matters.

**Information Source(s):** Public Service Commission; Office of People's Counsel; Baltimore City; Prince George's County; City of Bowie; Southern Maryland Electric Cooperative; Synapse Energy Economics, Inc.; Department of Legislative Services

**Fiscal Note History:** First Reader - February 15, 2017  
fn/lgc

---

Analysis by: Stephen M. Ross

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510