

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 506
Finance

(Senator Kelley)

Public Utilities - Regulatory Assets - Prohibition

This bill prohibits a public service company, in its utility operations, from demanding or collecting a rate of return on a regulatory asset created as a result of conditions addressed by a state of emergency as declared by the Governor.

Fiscal Summary

State Effect: The Public Service Commission can handle the bill's changes with existing budgeted resources. Revenues are not affected.

Local Effect: Municipal electric utilities are prohibited from earning a rate of return on regulatory assets created as a result of conditions addressed by a state of emergency, which reduces local revenues in any year in which that prohibition applies to an affected regulatory asset. Local expenditures are not directly affected.

Small Business Effect: Minimal.

Analysis

Current Law: Public service companies are not prohibited from earning rates of return on regulatory assets, whether as a result of conditions addressed by a state of emergency or otherwise.

Local Revenues: Municipal electric utilities are affected to the same extent as investor-owned utilities and electric cooperatives; that is, they are prohibited from earning a rate of return on a regulatory asset created as a result of conditions addressed by a state of emergency. Generally, a regulatory asset is a method of utility cost recovery that allows

a public service company to defer certain costs to its balance sheet, rather keep them on its income statement. They are, in effect, recognition that the public service company is likely to recover the costs through future rates (subject to regulator review and approval). A typical situation relevant to the bill is storm recovery; costs associated with recovery from, for example, a hurricane, are incurred when they are needed. Such costs can be deferred into a regulatory asset and incorporated into base rates at the next rate case. Infrequently, costs can be recovered through a rider or surcharge prior to a rate case.

In either case, while the bill does not limit dollar-for-dollar cost recovery, it does prohibit the company from earning a rate of return on affected regulatory assets. As a simple example for illustrative purposes, a rate of return of 8% on a \$100 investment for one year equates to \$8. Therefore, local government revenues decrease in any year in which the prohibition applies to an affected regulatory asset.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Public Service Commission; Department of Legislative Services

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