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February 16, 2021

**SB 506:** Public Utilities Regulatory Assets – Prohibition

**Committee:** Senate Finance

**Position:** OPPOSE

Southern Maryland Electric Cooperative (SMECO), a member-owned electric cooperative based in Hughesville that provides electricity to more than 166,000 customers in Charles, St. Mary’s, Calvert and southern Prince George’s County, opposes SB 506. This bill prohibits a public service company from receiving 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.

SMECO opposes this bill because it is arbitrary, interferes with the Public Service Commission (PSC) discretion in matters related to cost recovery for utilities and it unreasonably denies a public utility the opportunity to fully recover prudently incurred costs that relate to a state of emergency. Regulatory assets benefit utility customers by smoothing out cost increases due to storm response or other emergencies like the current pandemic. A regulatory asset is often recovered over multiple years vs. immediately in order to minimize customer impact.

The PSC has authority to approve or deny a return of the costs, the time period over which the public utility will recover the costs from its customers and whether the regulatory asset earns a rate of return. The return on the regulatory asset is intended to make the utility whole not produce a profit for the utility. Utilities incur borrowing costs to provide their essential services. It would be unfair to require the utilities to finance these costs at their expense.

Moreover, this bill is deeply unfair to an electric cooperative like SMECO. If the intent of the bill is to try and prevent shareholder profits, this hurts SMECO’s customers. As an electric cooperative, SMECO is not-for-profit and our customers are our owners. We don’t have shareholders. Any revenue that we recover over and above expenses is reinvested into our electric system or given back to our members in the form of capital credits.

Any legislative proposal – such as SB 506 – that precludes a utility from recovering its actual prudent costs, including the cost of capital, violates the regulatory system that has been in place for many years. For this and the reasons stated above, SMECO requests an unfavorable report on SB 506.

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For more information, contact: Tom Dennison, SMECO

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