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BILL NO.:	**Senate Bill 530** **Electricity – Standard Offer Service – Cost Allocation**
COMMITTEE:	**Senate Finance**
HEARING DATE:	**March 5, 2019**
SPONSORS:	**Senators Klausmeier and Feldman**
POSITION:	**Oppose**

Senate Bill 530 seeks to put requirements and restrictions on the Public Service Commission (Commission) in setting rates for electric distribution service and standard offer service (SOS). Among other requirements, the bill would require the Commission to order utilities to file a cost of service study that allocates its costs between its distribution service and SOS in their next base rate case. The bill also would require the Commission to include information on allocation of costs between distribution rates and SOS rates in a report it is required to file with the General Assembly every five years.

The Office of People's Counsel (OPC) respectfully opposes Senate Bill 530. In proposing a new Section 4-308, the bill appears to require the Commission to remove all costs, direct or indirect, that may enable Standard Offer Service from distribution even if those costs are necessary for the electric company's distribution functions and benefit competitive energy suppliers and their customers. Those costs would be imposed on SOS customers. SOS customers would be required to pay for SOS-related distribution costs in their SOS rates and energy supplier-related costs in their distribution rates. This would not result in a "just and reasonable rate" for SOS customers.

While OPC does not object to a review of the allocation of costs among the utilities' functions, Senate Bill 530 puts restrictions on that review that could result in unfair rates for SOS customers. Further, the bill is unnecessary. The Commission has addressed the issue of allocation of costs between distribution service and SOS, and maintains continuing authority to ensure a reasonable allocation of costs.

Since the 1999 restructuring of the electric industry, the main function of the Maryland electric utilities is to distribute electricity from the high voltage transmission system to each of their customers. The utilities also have important roles with respect to the customers' purchase of electricity supply. This is true in particular for residential customers, since about 80% of them purchase supply from their local utility.

For customers who are not buying power from alternate retail electricity suppliers, the utility offers standard offer service (SOS) electricity. This service is available to all customers of the utility at all times. Customers can leave SOS at any time without a penalty or fee, and customers can return to SOS at any time, without notice and without penalty or a fee. The utilities also have roles to play with respect to competitive supply. In addition to providing billing services for the energy suppliers, the utilities must undertake data transfer and accounting activities, provide information about retail choice on their bills and web sites, train their customer service representatives to answer questions and provide information regarding retail choice, and participate in regulatory proceedings regarding retail choice. The utility incurs costs to provide these services.

SOS prices are based on the cost of the wholesale electricity purchased by the utility for SOS customers and the costs incurred by the utility to carry out the procurement and undertake the other tasks necessary to provide SOS. The Commission has reviewed the allocation of costs between utility functions in setting rates for SOS and has not found that the current allocation system is unreasonable.[1]

The issues surrounding the allocation of costs among the utilities' roles of distribution service, SOS, and supporting retail choice are complex. OPC does not object to the utilities' filing of cost allocation studies that examine the allocation of costs among all three of these roles, or the Commission including information on those allocations in its regular reports to the General Assembly on the retail choice program. In fact, the Commission has directed Baltimore Gas and Electric Company to prepare and file a cost of service study that allocates its costs among these functions. OPC and the energy suppliers will have an opportunity to advocate in that proceeding for a fair allocation of costs among all of the utilities' roles.[2]

OPC is opposed to Senate Bill 530 because the proposed new Section 4-308 appears to shift costs from distribution rates to SOS customers that are necessary for the electric company's distribution functions and benefit competitive energy suppliers and their customers. Without the distribution service, neither SOS nor retail choice can exist. Imposing costs that are necessary for the distribution service only on SOS customers would not be a fair allocation of costs. The bill

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[1] Public Service Commission Case No. 9226/9232, Order No. 86881; Public Service Commission Case No. 9221, Order No. 87891.

[2] Public Service Commission Case No. 9221, Order No. 87891, p. 25.

only refers to the allocation of costs between the distribution service and SOS and does not include costs associated with supporting retail choice. This could skew the results of the review of these issues and result in price distortions in the market. An unreasonable level of costs allocated to SOS will raise the SOS price in a manner that is inequitable to SOS customers. Customers who switch to alternate retail electricity supplier would avoid paying a fair share of the billing, customer service and other functions of the utility, even though there is no indication that customers of retail electricity suppliers use these utility functions any less than SOS customers. Therefore, it would be inequitable for SOS customers to shoulder those costs without a fair contribution from customers who are being served by an alternate supplier. Additionally, an artificial increase in the SOS price distorts the market. Customers should be given a price signal to switch to a supplier based on a fair comparison of SOS costs and the price offered by the retail supplier, instead of an artificial savings created when the customers avoids paying a fair share of utility billing and customers service functions by switching.

For all the reasons above, the Office of People's Counsel respectfully requests an UNFAVORABLE report on Senate Bill 530.