

# 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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## A BILL ENTITLED

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  
26 certain annual customer rate reconciliation for a certain purpose; requiring a certain  
27 reconciliation to reflect certain actual costs; requiring a certain interest rate for a  
28 certain reconciliation; authorizing an electric company or a gas company to continue  
29 to recover certain costs through riders or surcharges under certain circumstances;  
30 prohibiting the Commission from reducing the return on equity applied to an electric  
31 company or a gas company based on the election of the company to propose an

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EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 alternative rate plan; prohibiting the approval of an alternative rate plan from  
 2 affecting the recovery of certain costs; authorizing an electric company or a gas  
 3 company to terminate an alternative rate plan at any time; requiring an electric  
 4 company or a gas company that terminates an alternative rate plan to state the  
 5 reason for termination; requiring certain rates under a terminated alternative rate  
 6 plan to remain in effect until the Commission establishes certain new rates in a  
 7 certain manner; prohibiting an electric company or a gas company from filing an  
 8 application for approval of an alternative rate plan before a certain date; defining  
 9 certain terms; and generally relating to the Public Service Commission and rates for  
 10 electric and gas companies.

11 BY adding to  
 12 Article – Public Utilities  
 13 Section 4–212  
 14 Annotated Code of Maryland  
 15 (2010 Replacement Volume and 2018 Supplement)

16 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,  
 17 That the Laws of Maryland read as follows:

18 **Article – Public Utilities**

19 **4–212.**

20 **(A) (1) IN THIS SECTION THE FOLLOWING WORDS HAVE THE MEANINGS**  
 21 **INDICATED.**

22 **(2) “ALTERNATIVE RATE PLAN” MEANS A PLAN TO ESTABLISH NEW**  
 23 **BASE RATES FOR AN ELECTRIC COMPANY OR A GAS COMPANY THAT INCLUDE THE**  
 24 **USE OF:**

25 **(I) A FULLY FORECASTED TEST YEAR;**

26 **(II) MULTIYEAR RATES;**

27 **(III) FORMULA RATES;**

28 **(IV) RATE DESIGNS;**

29 **(V) OTHER RATE PLANS; OR**

30 **(VI) A COMBINATION OF RATE PLANS THAT MEET THE**  
 31 **REQUIREMENTS OF THIS SECTION.**

32 **(3) “FORMULA RATE” MEANS A RATE THAT IS PERIODICALLY**

1 ADJUSTED BASED ON A PREDETERMINED FORMULA AND SUBJECT TO ANNUAL  
2 RECONCILIATION ADJUSTMENTS.

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

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

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

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

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

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

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

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

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

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

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

1 (I) STATE THE SPECIFIC REASONS FOR THE REJECTION;

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

5 (III) REVIEW ANY REVISED ALTERNATIVE RATE PLAN; AND

6 (IV) SOLICIT COMMENTS FROM INTERESTED PARTIES.

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

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

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

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

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

27 (G) TO MITIGATE POTENTIAL YEAR-TO-YEAR CUSTOMER RATE VOLATILITY  
28 RELATED TO STORM RESTORATION, AN ALTERNATIVE RATE PLAN MAY CREATE A  
29 REGULATORY ASSET, SUBJECT TO COMMISSION APPROVAL, THAT INCLUDES THE  
30 DEFERRAL OF OPERATING AND MAINTENANCE EXPENSES RELATED TO  
31 RESTORATION ACTIVITIES FOR STORM OUTAGE EVENTS WITH THE UNAMORTIZED  
32 BALANCE RECEIVING RATE BASE TREATMENT.

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

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

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

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

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

21           **(K) THE APPROVAL OF AN ALTERNATIVE RATE PLAN MAY NOT AFFECT THE**  
22 **RECOVERY OF SUPPLY OR TRANSMISSION RELATED COSTS.**

23           **(L) (1) AN ELECTRIC COMPANY OR A GAS COMPANY MAY TERMINATE AN**  
24 **ALTERNATIVE RATE PLAN AT ANY TIME.**

25           **(2) IF AN ELECTRIC COMPANY OR A GAS COMPANY TERMINATES AN**  
26 **ALTERNATIVE RATE PLAN:**

27                   **(I) THE ELECTRIC COMPANY OR GAS COMPANY SHALL STATE**  
28 **THE REASON FOR THE TERMINATION; AND**

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

33           SECTION 2. AND BE IT FURTHER ENACTED, That an electric company or a gas

1 company may not file an application for approval of an alternative rate plan before October  
2 1, 2019.

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