

Public Service Commission

Agency Overview

Before the Senate Finance Committee
September 16, 2019

Background and Mission

- Established in 1910 by the General Assembly
- Is an independent state agency
- Regulates activities of public service companies to ensure safe, economical, and reliable service

The Commissioners



Anthony J. O'Donnell



Jason M. Stanek
Chairman



Michael T. Richard



Odogwu Obi Linton



Mindy L. Herman

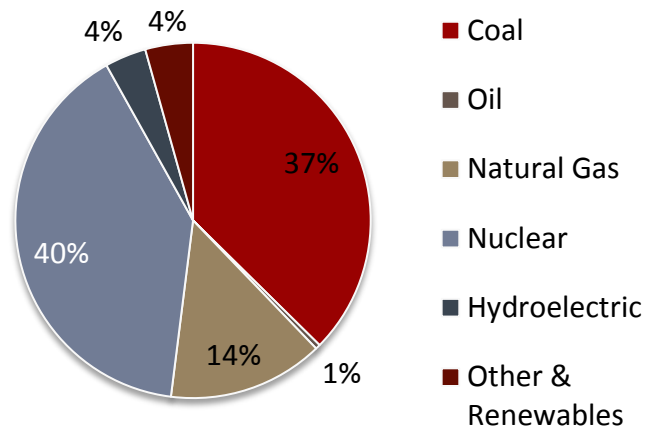
Commission Structure

- Five appointed Commissioners
- Administrative (Exec. Sec'y, General Counsel, Docket Room, IT, Communications, Fiscal, etc.)
- Public Utility Law Judges
- Technical Staff (incl. accountants, engineers, economists, attorneys)
- Consumer Affairs Division

Maryland at a Glance

- Utilities
 - 4 Investor-Owned Systems
 - 5 Municipal Systems
 - 4 Rural Electric Cooperatives
- Total Electric Customers: 2.6 million
- Total Energy Sales: 60,000 GWh

Maryland Generation Profile



Scope of Jurisdiction

- Electric and gas utilities
- Competitive electric and gas suppliers
- Telecommunications (e.g., local landline)
- Passenger Transportation
 - Taxicabs (in some jurisdictions)
 - For-hire vehicles: limousines, sedans, and buses
 - TNCs (Uber, Lyft)
- Bay pilots
- Private water and sewer companies
- Hazardous liquid pipelines

FY 2020 Budget Appropriation

- Special funds = \$20,363,302
 - Derived from assessments of the public service companies, subject to a .17% cap of reported revenues.
- Federal funds = \$626,160
 - Used for pipeline safety
- Total = **\$20,989,462**

Types of Proceedings

- Hearings
 - Legislative-style and evidentiary
 - Public comment (available online)
- Administrative Meetings
- Rulemakings
- Technical Conferences
- Most proceedings are streamed on our YouTube channel
 - Proceedings archived



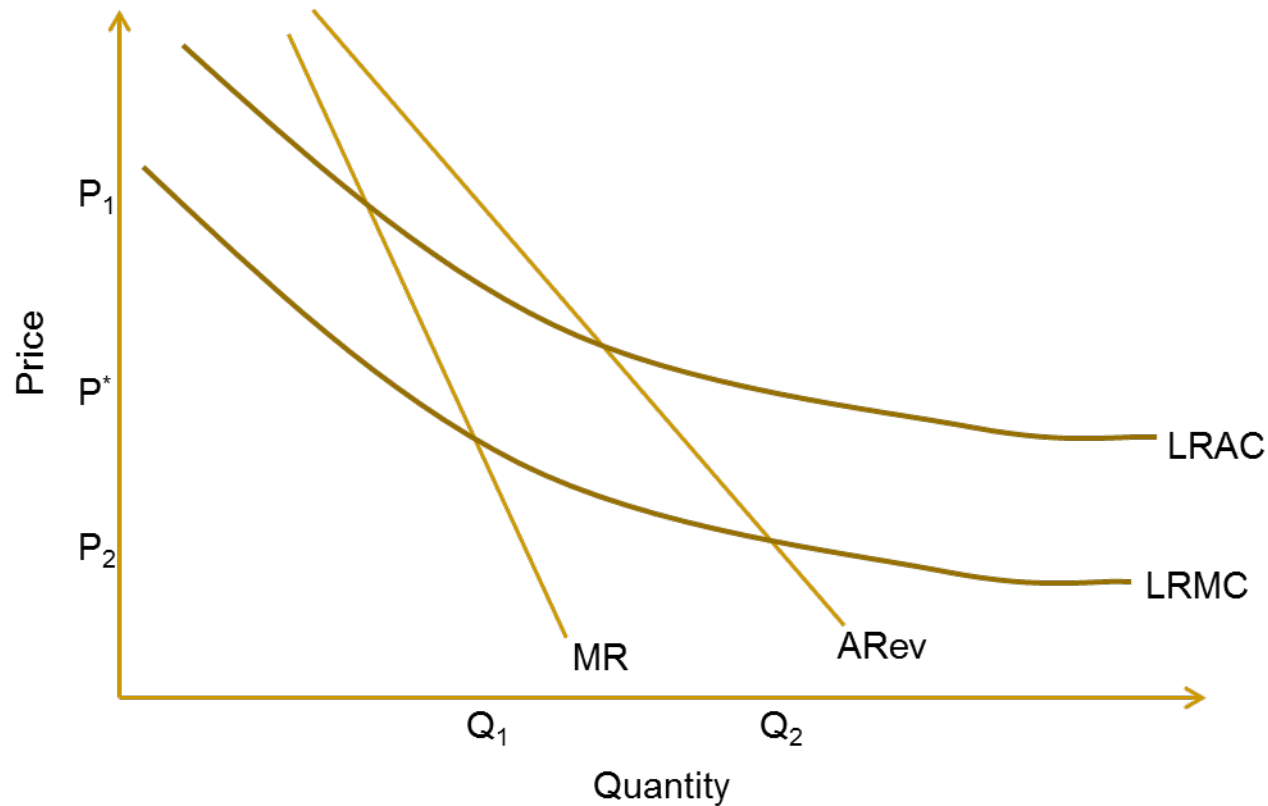
Rate Case 101

Maryland Public Service Commission
September 16, 2019

Why Do We Regulate Public Utilities?

- **Public utilities are a natural monopoly**
 - High fixed costs – Marginal cost pricing does not allow utilities to fully recover investment
 - Large economies of scale – Marginal cost decreases as production increases
 - Optimal outcome is a market with a single producer
- **Monopolies have an incentive to charge inefficient rates**
 - Customers are captive
 - Very high barriers to entry
- **Rate Cases are a way to determine just and reasonable rates at the average total cost**
 - Monopoly revenue maximizing rates > **Average total cost rates** > Marginal cost rates

The Economic Problem of Natural Monopolies



The Economic Problem of Natural Monopolies

Key Takeaway:

Regulators do not seek to set rates at competitive levels because the utility would go bankrupt. Instead rates are set at a level that is lower than monopoly pricing, but that allows the utility to recover its costs.

Rate Case Overview

Part 1 – The Revenue Requirement – How much money does the utility need to provide adequate service?

1. Total cost is calculated – This is equal to the sum of cost of service and **cost of capital (rate of return)**
2. Total revenue is calculated – This is equal to units sold, times current rate.
3. If revenue > cost, no rate increase is necessary
4. Revenue requirement is calculated – This is the difference between the total cost and revenue if cost > revenue

Part 2 – Rate Design – Where do we collect the necessary money?

1. **Cost of service study** – What customer is incurring the costs to provide service?
2. **Rate Design** – What portion of the revenue requirement should each customer pay?

Ratemaking Equation

$$R = O + (V - D)r$$

Revenue Requirement (used to create rates) → R

Operating Expenses → O

Gross Value of the Utility's Tangible and Intangible Property → V

Accrued Depreciation → D

Rate of Return → r

Rate Base (bracketed under $V - D$)

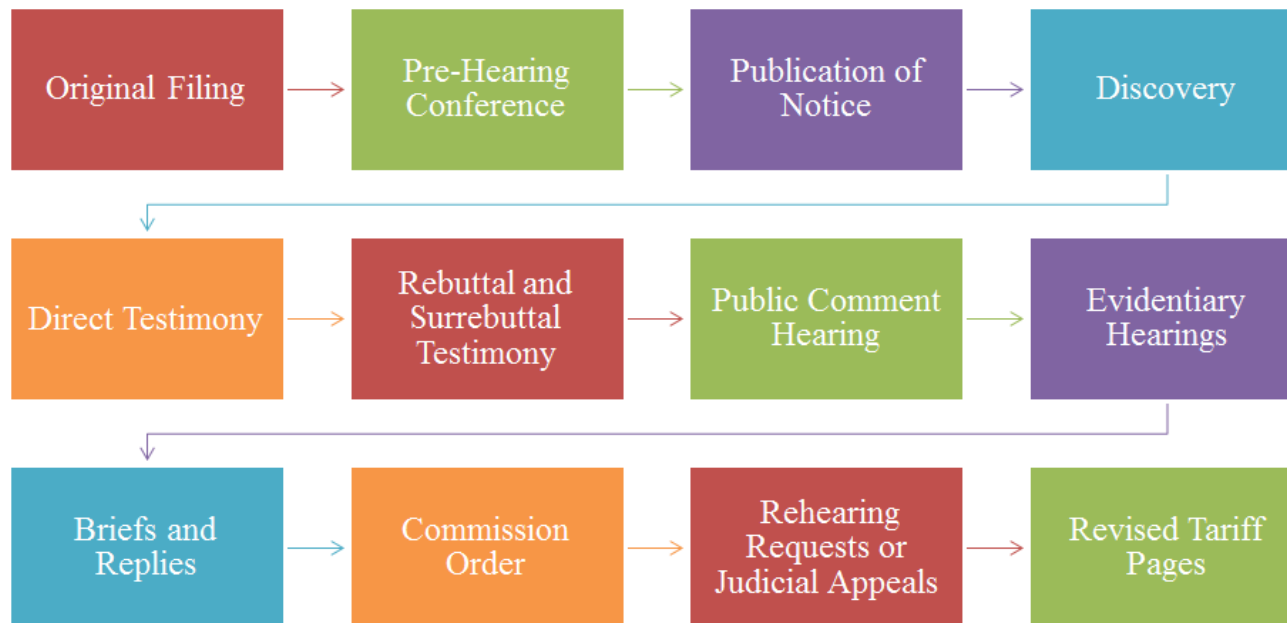
Typical Rate Case Topics

- A test year is used to calculate the costs and revenues incurred by a company over a given time period.
- Test years can be historic or forecasted.
- A cost of service study is used to determine the cost of operations for the utility over the course of the test year, and to allocate the cost among the customer classes.
- The cost of capital is calculated using a proxy group of similar utilities.
- Adjustments are made to all expenses and costs to ensure they are **known and measurable**, and **just and reasonable**.
- Rates are calculated once all costs are accounted for and appropriately adjusted.

Regulatory Lag

- Regulatory lag refers to the delay between a change in a regulated utility's costs and the inclusion of that change in rates due to the regulatory process.
- Historic test years increase the effect of regulatory lag.
- Serves certain purposes:
 1. Helps meet the just and reasonable standard.
 2. Encourages market efficiency
 3. Provides a disincentive for over spending
- Regulatory lag should be limited to the extent possible.

Rate Case Procedure





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