

STATE OF MARYLAND
PUBLIC SERVICE COMMISSION

NUMBER: A-2624
DATE: April 9, 2021
MAIL LOG NO.: 233830

TO: Jason M. Stanek, Chairman
Michael T. Richard, Commissioner
Anthony J. O'Donnell, Commissioner
Odogwu Obi Linton, Commissioner
Mindy L. Herman, Commissioner

FROM: Anthony Myers, Executive Director **pv for AM**

Re: Southern Maryland Electric Cooperative, Inc. Request to Revise Bill
Stabilization Adjustment Monthly Factors

Description of Application:

Southern Maryland Electric Cooperative, Inc. ("SMECO") filed for authorization to revise the factors set in its most recent rate case to calculate the monthly bill stabilization adjustment ("BSA") for its General Service Demand ("GSD") rate class.

Parties which should receive a copy of Staff Recommendations:

Mark A. MacDougall, Southern Maryland Electric Cooperative, Inc.
Paula M. Carmody, Maryland Office of People's Counsel

Recommended Action:

Staff recommends that the Commission reject the proposed revisions to the monthly factors used to calculate the BSA for rate class GSD, and that SMECO instead propose revisions within the context of its next rate case.

Jamie Smith

Jamie Smith, Director
Accounting Investigations Division

Leslie Romine KA

Leslie M. Romine
Staff Counsel

Drew McAuliffe

Drew McAuliffe, Director
Electricity

Commission Action on _____:

Approved ____ Disapproved ____ Accept for Filing ____

cc: H. Robert Erwin, Jr., General Counsel
Andrew S. Johnston, Executive Secretary
Ryan C. McLean, Chief Public Utility Law Judge
Stephanie Bolton, Director, Consumer Affairs Division
Tori Leonard, Director of Communications

Summary of Filing

SMECO filed for authorization to revise the factors used to calculate its monthly BSA for the GSD rate class because SMECO believes that the existing factors set in SMECO's last distribution rate case, Case 9456, which became effective January 2018 are no longer appropriate. The case established test year factors for certain rate classes to be used in the calculation of the monthly Bill Stabilization Adjustment. SMECO states in its filing that it "has found that the number of members taking service in schedule GSD has increased significantly" (See Table 1). This change only impacts the GSD rate class.

Applicable Law¹

The Commission approved SMECO's BSA in Order No. 83737, issued December 11, 2010, in Case No. 9234.² As specified in the Order, SMECO's BSA is calculated in the same manner as Potomac Electric Power Company ("Pepco"). The revenue per customer for each class and month from the test year is multiplied by the change in the number of customers and added to the test year revenue, which is then compared to actual revenue for that month. Any difference is then divided by the estimated sales for the second succeeding month to obtain the adjustment for the Delivery Service Price. The maximum change in the price is capped at 10 percent, with any imbalance carried forward to be charged/credited in a future monthly calculation.

Background and Analysis

SMECO has reviewed the class data and factors for 2018 and 2019 to determine any significant impacts that could be the basis for a revision to the Case 9454 Test Year factors. SMECO chose not to include 2020 data in its analysis due to the effect of the COVID-19 pandemic. For the Residential rate class and the General Service Non-Demand rate class, which was closed to new customers in 2016, SMECO found that there are no changes needed to the monthly BSA factors. In Tables 2 and 3, SMECO recalculated the applicable monthly revenue.

In its filing SMECO concedes that, normally, changes to BSA factors are part of a rate case process to reflect revisions to the authorized revenue requirements approved. SMECO notes that all prior revisions to BSA factors were implemented in SMECO's previous rate cases (Case No. 9234 and Case No. 9456). SMECO is not currently anticipating a distribution rate case filing anytime in 2021. For that reason, SMECO believes it is appropriate to make the proposed revisions to the monthly factors through this filing.

¹ Applicable Law section.

² See Case No. 9234, In the Matter of the Application of Southern Maryland Electric Cooperative, Inc. for Authority to Revise Its Rates and Charges for Electric Service and for Certain Rate Design Changes.

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However, a rate case is the proper forum for SMECO to propose to change the BSA factors. Rider BSA in the SMECO tariff expressly relies on the revenue requirement established in SMECO's most recent rate case:

The BSA shall be computed by dividing the difference between the normalized monthly test year revenue and the actual monthly revenue, plus any applicable true up amount from previous months, by the forecast kWh sales applicable to the service classification for the second succeeding month. The normalized monthly test year revenue is defined as the average revenue per customer in the test year billing month corresponding to the current billing month at rates approved in the latest base rate proceeding, multiplied by the number of customers in the current billing month. [(emphasis not in original) SMECO tariff, sheet 102]

Hence, the SMECO tariff indicates that revision of the revenue requirement can only occur in a rate case. This requirement is consistent with Commission policy against adjustment of a single component of rates outside a rate case (referred to as single-issue ratemaking). The Commission has noted that "there are good reasons for avoiding single-issue ratemaking, notably the difficulty of assessing whether a rate is just and reasonable in the absence of the full information regarding a Company's financial position and cost of service that is available in a rate case."³ For example, the Commission rejected a request by Delmarva Power & Light Company ("Delmarva") to recover pension and other post-employment benefits ("OPEB") expenses through a cost tracker (surcharge), instead of through base rates. The Commission explained:

We rejected similar proposals in Delmarva's rate case because surcharges guarantee dollar-for-dollar recovery of specific costs, diminish the Company's incentive to control those costs, and exclude classic, ongoing utility expenses from the standard, contextual ratemaking analysis. We found before that tracker mechanisms, like the surcharge and amortization proposals in this case, represent an extraordinary form of ratemaking that we reserve only for very large, non-recurring expense items that have the potential to seriously impair a utility's financial well-being and that do not contribute to the Company's rate base. Pension and OPEB expenses fail this test, even in a bad year – they are classic, ongoing costs of running a utility company, and cannot, in our view, qualify for specialized treatment.⁴

³ *In re the Application of the Potomac Electric Power Company for Authority to Introduce Rider S – Standby Service Under its Retail Electric Tariff*, Case No. 8974, 2003 WL 24217745, at *7 (Oct. 23, 2003)

⁴ *In the Matter of the Application of Delmarva Power & Light Company for an increase in its rates for the distribution of electric energy*, Case No. 9192, Order No. 83085, p. 15 (Dec. 30, 2009)(ML 120754).

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Similar reasoning applies to the BSA revenue adjustment proposed by SMECO. This adjustment, too, would fail to consider potential other related changes in SMECO's costs and operations that could affect the BSA revenue adjustment.

The BSA provides a levelized stream of revenue based on rates approved in the latest base rate proceeding. This enhances SMECO's opportunity to earn the authorized rate of return on its operations by limiting exposure to changes in revenue caused by variations in the energy usage of its customers. The BSA is a mechanism that decouples revenues from abnormal levels in usage and/or changes in the number of customers from adjusted test-year levels. The adjustment provides a levelized stream of revenue equal to the test year revenue requirement and reduces revenue risk to the utility.

The BSA is computed by dividing the difference between the normalized monthly test year revenue and the actual monthly revenue, plus any applicable true up amount from the previous months and dividing by the forecasted kWh sales applicable to the service classification. The amount of the monthly adjustment factor for any applicable rate schedule may not exceed +/- 10 percent of the average test year rate per kWh. If the BSA credit or surcharge exceeds the +/- 10 percent cap, then the difference is added to a cumulated "carry-over" account, which is recovered in future months for which the BSA is less than the cap.

Rider BSA in SMECO's tariff states: This Rider is applicable to the Residential (Schedule R), General Service Non-Demand (Schedule GSND), and General Service Demand (Schedule GSD) rate schedules. The BSA does not apply to customers in the General Service Demand class that receive service at primary voltage level. The BSA shall be computed monthly for application in the second succeeding billing month. It shall consist of a factor designed to reflect differences between test year and actual base rate revenues adjusted as needed to exclude revenues for lost sales from the onset of a Major Outage Event, as defined by COMAR 20.50.01.03B (27), until all Major Outage Event-related sustained interruptions are restored, plus a factor designed to reconcile prior period Bill Stabilization Adjustments with actual billed BSA adjustments.

Formulaically: $BSA = [(A*B-C+D)/S]$ Where:

BSA = The monthly Bill Stabilization Adjustment factor for the class in \$ per kWh

A = Average Class Distribution Base Revenue per customer for the corresponding month in the test period.

B = Class customer count for the corresponding current billing month.

C = Actual monthly Class Distribution Base Revenue in \$.

D = Cumulative true-up for over/under-collections from the class in previous months and any adjustment for excluded Major Outage Event-related lost sales, in \$.

S = Class forecasted kWh sales for the succeeding month. (2) The amount of the adjustment factor for any rate schedule may not exceed +/- 10% of the average test year rate per kWh for the rate class. Any excess amount above the cap shall be collected in a subsequent month.

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The average of GSD rate class CY2018 and CY2019 calculated BSA revenue factors are 14.2 percent lower than the test year factors authorized in CN 9456.

Table 1 Comparison of Test Year Factors Authorized in Case No 9456 and Calculated Average of Projected Factors in CY 2018 and CY 2019

[illegible]

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TABLE 2 Recalculation of BSA Revenue for GSD Class Demand Charge
CY2018 and CY2019 using proposed revised factors in Table 1, above

Distribution Rates \$0.01276 per kWh \$526 per kW								
<u>Demand</u>								
	GS-D	GS-D	GS-D	GS-D	GS-D	GS-D	GS-D	GS-D
	Billed	Monthly kWh	Monthly kWh	Dist. kWh	Monthly kW	Monthly kW	Monthly kW	Demand
	Customers	to Annual	Projection	Revenues	to Annual	Projection	Projection	Revenues
Jan	8,948	8.66%	9,571	\$1,092,836	8.18%	260,847	29.2	\$1,372,057
Feb	8,948	8.05%	8,904	\$1,016,633	8.27%	263,784	29.5	\$1,387,506
Mar	8,948	8.04%	8,891	\$1,015,195	8.18%	260,671	29.1	\$1,371,131
Apr	8,948	7.28%	8,054	\$919,600	8.04%	256,283	28.6	\$1,348,051
May	8,948	8.39%	9,274	\$1,058,926	7.93%	252,674	28.2	\$1,329,064
Jun	8,948	8.66%	9,582	\$1,094,064	8.42%	268,573	30.0	\$1,412,692
Jul	8,948	9.47%	10,471	\$1,195,550	8.74%	278,813	31.2	\$1,466,556
Aug	8,948	9.12%	10,087	\$1,151,767	8.93%	284,583	31.8	\$1,496,905
Sep	8,948	8.48%	9,382	\$1,071,232	8.81%	280,875	31.4	\$1,477,402
Oct	8,948	8.06%	8,917	\$1,018,151	8.28%	263,918	29.5	\$1,388,211
Nov	8,948	7.85%	8,682	\$991,359	8.15%	259,715	29.0	\$1,366,103
Dec	8,948	7.93%	8,769	\$1,001,281	8.08%	257,565	28.8	\$1,354,794
Total			110,583	\$12,626,595		3,188,303		\$16,770,472
Average	8948		9215					

TABLE 3 Recalculation of BSA Revenue for GSD Class Facilities Charge

CY2018 and CY2019 using proposed revised factors in Table 1, above

One Phase	One Phase	One Phase	Three Phase	Three Phase	Three Phase	Total	Total GSD	Mthly. BSA	Mthly. BSA
Billed	Facil.	Facil.	Billed	Facil	Facil.	Facil.	BSA	GS-D	GS-D
Cust.	Chg.	Revenues	Custom	Chg.	Revenues	Revenues	Revenues	Factor	Rate
3,223	\$18.28	\$58,924	5,725	\$26.15	\$149,709	\$208,633	\$2,673,527	\$298.771	\$0.031216
3,223	\$18.28	\$58,924	5,725	\$26.15	\$149,709	\$208,633	\$2,612,772	\$291.981	\$0.032794

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3,223	\$18.28	\$58,924	5,725	\$26.15	\$149,709	\$208,633	\$2,594,959	\$289.991	\$0.032616
3,223	\$18.28	\$58,924	5,725	\$26.15	\$149,709	\$208,633	\$2,476,284	\$276.729	\$0.034360
3,223	\$18.28	\$58,924	5,725	\$26.15	\$149,709	\$208,633	\$2,596,622	\$290.177	\$0.031289
3,223	\$18.28	\$58,924	5,725	\$26.15	\$149,709	\$208,633	\$2,715,389	\$303.449	\$0.031669
3,223	\$18.28	\$58,924	5,725	\$26.15	\$149,709	\$208,633	\$2,870,739	\$320.810	\$0.030639
3,223	\$18.28	\$58,924	5,725	\$26.15	\$149,709	\$208,633	\$2,857,305	\$319.308	\$0.031655
3,223	\$18.28	\$58,924	5,725	\$26.15	\$149,709	\$208,633	\$2,757,267	\$308.129	\$0.032843
3,223	\$18.28	\$58,924	5,725	\$26.15	\$149,709	\$208,633	\$2,614,995	\$292.230	\$0.032772
3,223	\$18.28	\$58,924	5,725	\$26.15	\$149,709	\$208,633	\$2,566,095	\$286.765	\$0.033029
3,223	\$18.28	\$58,924	5,725	\$26.15	\$149,709	\$208,633	\$2,564,708	\$286.610	\$0.032684
Restated GSD Demand Revenue at proposed revised factors.								297.079	

SMECO has provided a bill impact estimate for the average GSD rate class customer. Table 4 below shows the results. In no month will a GSD rate class customer's bill increase as a result of this BSA change. In some months there is no bill impact but, in most months, customers will experience a decrease, with the average GSD rate class customer experiencing a bill decrease of as much as \$48 in some months. Over the course of the year the average monthly bill decrease is \$12.89. In a summer month the average bill of a standard offer service GSD rate class customer is \$801.84.⁵ A \$12.89 reduction in a customer's bill will result in a 1.6 percent decrease.

⁵ Based on an average usage of 8,604 kWh and 30 KW for a secondary phase 3 SOS customer in a summer month.

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TABLE 4 BSA Bill Impact per Month

Month	Avg. Usage	Current BSA	Current BSA bill	Proposed BSA	Proposed BSA bill	Bill Impact
Jan	8544	\$ 0.00312	26.67	\$ 0.00273	23.33	\$ (3.34)
Feb	8976	\$ 0.00328	29.44	\$ 0.00029	2.61	\$ (26.83)
Mar	7984	\$ 0.00326	26.04	\$ 0.00326	26.04	\$ -
Apr	8174	\$ 0.00344	28.09	\$ 0.00162	13.22	\$ (14.87)
May	7863	\$ 0.00313	24.6	\$ 0.00313	24.6	\$ -
Jun	8908	\$ 0.00317	28.22	\$ 0.00183	16.27	\$ (11.95)
Jul	9771	\$ 0.00307	29.96	\$ 0.00059	5.81	\$ (24.15)
Aug	9486	\$ 0.00317	30.05	\$ 0.00142	13.5	\$ (16.55)
Sep	10038	\$ 0.00329	32.99	\$(0.00154)	-15.48	\$ (48.47)
Oct	8467	\$ 0.00328	27.75	\$ 0.00228	19.27	\$ (8.48)
Nov	7661	\$ 0.00330	25.3	\$ 0.00330	25.3	\$ -
Dec	7371	\$ 0.00327	24.09	\$ 0.00327	24.09	\$ -
Average						\$ (12.89)

Recommendation

Staff recommends that the Commission reject the proposed revisions to the monthly factors used to calculate the BSA for rate class GSD, and that SMECO instead propose revisions within the context of its next rate case.

Lucy Shea

Public Utility Auditor
Accounting Investigations Division

Drew McAuliffe

Director
Electricity Division

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