

SB 326 – Consumer Protection

DPA Position: Support

DPA supports SB 326, which will help control electric rate increases in the future, significantly limits the amount of interim rates a utility can put into effect, controls costs a utility can recover in a rate case, and strengthens oversight and transparency over regulated utilities. DPA strongly supports the improvements and appreciates the cooperation and leadership of the legislative sponsors to bring these important changes forward.

Overview

SB 326 controls the amount of electric infrastructure spending (a key driver in rate increases) that Delmarva Power can recover in rates from customers, which will control future rate increases, limits the amount of interim rates (rate increases before the Public Service Commission has granted a rate increase) utilities can implement, strengthens oversight of regulated utilities, improves transparency for customers and policymakers, and streamlines aspects of the rate-setting process.

Because utilities operate as monopolies, where customers have no choice but to pay the rates charged by the utility, granting the utility both cost recovery and profit from ratepayers, stronger controls over the drivers of increased rates and accountability and transparency measures are necessary to ensure customers are paying only just and reasonable rates.

Regular Management Audits

- Requires recurring independent management audits of regulated electric utilities (Delmarva Power).
- Audits evaluate operational efficiency and management effectiveness.
- Unlike competitive businesses, regulated monopolies lack competition and the market pressure competition provides to control costs, making robust oversight essential.
- Will help to ensure ratepayer dollars are being used efficiently and responsibly.
- Modeled after requirements in Pennsylvania.

Rate Transparency

- Utility bills are often difficult for customers to understand.
- Will create a standardized, easy-to-read rate table showing all components of utility rates.
- Utilities must update the table whenever rates change.
- Information must be posted online, included in tariffs, and made available to customers.

Plain Language Requirements

- Utility filings and communications are often overly technical and inaccessible.

- Requires utilities, PSC staff, and the DPA to use plain and understandable language whenever possible.
- Helps customers better understand rates, filings, and regulatory decisions.

Preserving the “Average Rate Base” Method for Electric and Gas Utilities

- Codifies the PSC’s longstanding practice of using the average rate base method rather than year-end accounting.
- The year-end method can inflate utility earnings without improving service quality or reliability.
- In Delmarva’s current electric rate case, switching methods would increase customer costs by approximately \$8.3 million annually.
- In Delmarva’s recent gas case, the impact exceeded \$10 million annually.
- This provision protects customers from unjustified accounting-driven rate increases.

Increased Transparency in Rate Cases

- Requires utilities to clearly disclose the test period and test year at the start of a rate case.
- Requires a regulatory accounting review/audit when utilities request rate increases unless one has already been completed.
- Helps ensure costs and affiliate transactions included in rate requests are appropriate and properly accounted for.

Interim Rate Reform

- Current law allows utilities to collect 100% of a requested rate increase before the PSC issues a final decision. But utilities never receive the full amount requested, so current law provides utilities a temporary windfall at the expense of customers.
- SB 326 reduces interim recovery to 50% of the request at 7 months, reducing the likelihood of customer overpayment and future refunds, while increasing to 75% at 12 months to ensure rate cases are resolved promptly.
- Delays implementation of interim rates from 60 to 90 days while still allowing utilities timely recovery for system investments.

Limiting Recovery of Excessive Rate Case Expenses

- Customers currently pay for the utility’s cost in raising customers’ rates, a wholly inequitable standard. This means customers currently pay millions in utility legal, consulting, and rate case expenses.
- Recent utility rate case expenses have exceeded \$1–2 million per proceeding, which utilities then recover from customers.
- SB 326 limits recoverable expenses to amounts comparable to those incurred by PSC Staff and the DPA.
- Modeled after reforms adopted in Connecticut.

Greater Transparency in PSC Decisions

- Requires the Commission to clearly explain the rationale behind its decisions.
- Improves transparency and public confidence in regulatory outcomes.
- Modeled after Florida law.

Delmarva Power Infrastructure Spending Cap

- Places a cap on the amount Delmarva Power electric can recover from customers in rates from **non-mandatory** infrastructure spending.
- Delmarva Power is projecting to increase these non-mandatory categories by over 500% between 2019 and 2028. These expenses are then sought to be recovered from customers through frequent rate increases.
- Applies to discretionary projects such as:
 - adding excess system capacity,
 - replacing equipment early,
 - certain reliability-related upgrades.
- Delmarva already exceeds PSC reliability standards and reliability performance has remained relatively flat since 2018 despite all of this increased spending.
- The cap is based on Delmarva's average spending levels in these categories during this period of exceeding reliability standards, and thus should not have any impact on Delmarva's ability to maintain reliable systems.