

**Department of Legislative Services**  
Maryland General Assembly  
2011 Session

**FISCAL AND POLICY NOTE**

House Bill 1322  
Economic Matters

(Delegate Barkley)

---

**Electric Companies and Electric Cooperatives - Standard Offer Service - Service Rights Auctions**

---

This bill requires the Public Service Commission (PSC) to study and make recommendations regarding the advisability of establishing an auction among retail electric companies for the right to provide electric service to electric customers using standard offer service (SOS) in certain service territories; and allowing electric cooperatives to participate or establishing a separate auction for such entities. PSC must also study and make recommendations about how an auction must be conducted. PSC recommendations must consider the best interests of electric customers relating to the cost and reliability of electric service. PSC must report its recommendations to the Senate Finance Committee and the House Economic Matters Committee by December 31, 2011.

The bill takes effect July 1, 2011.

---

**Fiscal Summary**

**State Effect:** PSC can implement the bill with existing budgeted resources, as discussed below.

**Local Effect:** None.

**Small Business Effect:** Potential meaningful.

---

## Analysis

**Bill Summary:** PSC must study and make recommendations about the availability of establishing an auction among retail electric companies for the right to provide electric service to SOS customers in the current service territories of Potomac Electric Power Company, Allegheny Power, Baltimore Gas and Electric Company, or Delmarva Power and Light Company; and allowing electric cooperatives to participate in the auction or establishing a separate auction among electric cooperatives for the right to provide electric service to customers using SOS in their service territories.

PSC must also study and make recommendations about the manner in which an auction should be conducted, including (1) provisions relating to low-income customers; (2) the frequency and timeframe for auctions; (3) procedures governing auctions; and (4) the disposition of proceeds from auctions to benefit residential electric customers. In making its recommendations, PSC must consider the best interests of electric customers relating to the cost and reliability of service.

**Current Law:** Since electric industry restructuring in 1999, residential electric customers may choose to purchase electricity from competitive electricity suppliers. Customers that do not actively choose a competitive supplier continue to receive their electric supply through SOS. SOS is provided by local electric companies (*i.e.*, investor-owned utilities) who own the “wires” portion of the electric system.

To obtain the best price for SOS for residential and small commercial customers, PSC may require each electric company to obtain its electricity supply for SOS through a competitive process. PSC may also require or allow an investor-owned electric company to procure electricity for these customers directly from an electricity supplier through one or more bilateral contracts outside the competitive process. Under the Code of Maryland Regulations (COMAR 20.52.04.01), PSC determines the model request for proposals (RFP) to be used for SOS electricity procurement, and electric companies submit a utility bid plan based on the model RFP. The model RFP may not be altered unless it is necessary to conform to utility-specific conditions.

The procurement of supply for SOS is accomplished through a series of bidding auctions during the year for blocks of supply. The SOS product can (1) include a blended portfolio of short-, medium-, and long-term contracts to address different portions of customer load; and (2) include cost-effective energy-efficiency and conservation measures. Also, the names of successful bidders in the auction must be disclosed. For residential service, the commission currently requires electric companies to use a series of rolling two-year contracts auctioned up to four times each year.

**Background:** All electric customers are currently subject to market rates, either by directly choosing a competitive supplier, or by taking SOS from the electric distribution utility (electric company). Each electric company purchases the electricity supply for its SOS customers from unregulated wholesale suppliers, who own power plants and produce electricity or who buy and sell it on the wholesale market. Bid offers with the lowest price are selected. Electricity to meet SOS supply is bid through a blended portfolio, which mitigates the potential for sudden retail price changes due to volatile whole market conditions. Additionally, in order to prevent an excessive amount of load from being exposed to upward market price risks and volatility, PSC may stagger the dates of the wholesale auctions.

As shown in **Exhibit 1**, the percentage of customers receiving competitive service has increased significantly since December 2006.

---

**Exhibit 1**  
**Percentage of All Customers Served by Competitive Electricity Suppliers**

<u>Customer Class</u>	<u>December 2006</u>	<u>December 2007</u>	<u>December 2008</u>	<u>December 2009</u>	<u>December 2010</u>
Residential	2.3%	2.8%	2.8%	5.0%	13.5%
Small Commercial & Industrial	21.1%	22.5%	17.3%	23.2%	27.9%
Mid Commercial & Industrial	51.2%	52.8%	47.0%	50.9%	54.4%
Large Commercial & Industrial	87.9%	89.0%	87.0%	88.6%	88.2%
<b>Total</b>	<b>4.7%</b>	<b>5.3%</b>	<b>5.1%</b>	<b>7.6%</b>	<b>15.7%</b>

Source: Public Service Commission

---

**Exhibit 2** shows the number of customers that are currently served by competitive electricity suppliers and that still receive SOS in each service territory. Although the number of customers receiving competitive supply has increased significantly in the past two years, 1.9 million electric customers still buy electricity through SOS.

---

**Exhibit 2**  
**Electric Customers Served by Competitive Suppliers and SOS**  
**December 2010**

<b><u>Distribution Utility</u></b>	<b><u>Customers with Competitive Supply</u></b>	<b><u>SOS Customers</u></b>	<b><u>Total Customers</u></b>
Allegheny Power	19,922	235,059	254,981
Baltimore Gas and Electric	226,384	1,011,109	1,237,493
Delmarva Power & Light	20,519	185,278	205,797
Potomac Electric Power Co.	83,904	454,377	538,281
<b>Total</b>	<b>350,729</b>	<b>1,885,823</b>	<b>2,236,552</b>

Source: Public Service Commission

---

**State Fiscal Effect:** Under the bill PSC will be required to consider significantly changing the market for retail electricity in the State. Instead of having electric companies procure supply for SOS customers, competitive suppliers would bid for the right to provide electric service to electric customers using SOS. As advised by PSC, proposals under which an electricity supplier would compete to become the SOS provider for one or more utility service territories have been considered under Case Number 9117. Through that proceeding PSC is investigating various ways to enhance SOS procurement. PSC advises that since the commission is currently overseeing procurement of electricity for SOS customers, the bill can be implemented with existing budgeted resources.

**Small Business Effect:** PSC has licensed 53 companies to provide competitive electric supply to residential customers. Allowing competitive suppliers to bid for the right to supply electricity may enable these companies to significantly increase their customer base. To the extent that PSC recommends establishing an auction for the right to supply electric service to SOS customers, any affected suppliers that are considered small businesses benefit.

---

**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Public Service Commission, Department of Legislative Services

**Fiscal Note History:** First Reader - March 22, 2011  
mc/lgc

---

Analysis by: Erik P. Timme

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510