

Department of Legislative Services
 Maryland General Assembly
 2011 Session

FISCAL AND POLICY NOTE
 Revised

Senate Bill 244
 Finance

(Senator Pugh, *et al.*)

Economic Matters

Public Service Commission - Customer Education on Customer Choice

This bill requires the Public Service Commission (PSC) to take certain actions to increase awareness about competitive electric supply options. PSC must host and regularly update a customer choice education page on its website and must work with local media outlets to develop and air public service announcements publicizing customer choice. PSC must recover associated costs through the annual assessment on public service companies. By July 1, 2011, PSC must convene a workgroup of interested parties to advise PSC on improvements to the PSC website information and on additional methods of consumer education that can effectively supplement the bill’s requirements.

The bill takes effect June 1, 2011.

Fiscal Summary

State Effect: Special fund expenditures from the Public Utility Regulation Fund increase by \$30,000 in FY 2012 for computer hardware and software. Special fund expenditures may increase further beginning in FY 2012 for additional staff at PSC, depending on the recommendations made by the workgroup, and to develop and air public service announcements. Special fund revenues increase correspondingly in all years as costs are recovered through an increase in the annual assessment on public service companies. State expenditures (all funds) for electricity may increase minimally.

(in dollars)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
SF Revenue	\$30,000	-	-	-	-
SF Expenditure	\$30,000	-	-	-	-
Net Effect	\$0	\$0	\$0	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local government expenditures for electricity may increase minimally.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: By July 1, 2011, PSC must convene a specified workgroup of interested parties to study issues relating to the development and improvement of customer choice materials on the PSC website and options and recommendations for the development of a customer education program that will provide pertinent information on availability of customer choice to specified entities. The workgroup must develop recommendations for implementing suggested changes, new materials, and public outreach, including a schedule for developing, funding, and deploying customer education and materials on customer choice. The workgroup must report its recommendations to PSC, the Senate Finance Committee, and the House Economic Matters Committee by December 31, 2011. PSC must take action on those recommendations as soon as practicable.

PSC must host and regularly update a user-friendly customer choice education section on its website and prominently display a link to that section on the homepage of its website. The bill outlines the information that must be provided on the website, including a clear and concise description of customer choice and how customers can shop for electricity, fact sheets that answer frequently asked questions, a statement advising customers about options when a competitive supply contract expires, and a list of all eligible suppliers that have open offers in a customer's service area. To the extent practicable, the list of suppliers must (1) include the duration of the contract, the cost of electricity per kilowatt-hour, and any cancellation fees; and (2) provide a link to each competitive supplier's website. PSC must provide a secure portal on its website for electricity suppliers to submit updated information on current supply offers. Through that portal, electricity suppliers must update current supply offers at least once a month.

PSC must work with media outlets in the State to develop and air public service announcements publicizing customer choice and directing customers to the PSC website for more information. PSC must report to the General Assembly by December 31 of each year on the status and success of its efforts to educate customers about customer choice.

PSC must recover costs incurred for website improvements and public service announcements publicizing customer choice through its annual assessment on electric companies and electricity suppliers.

Current Law: The Electric Customer Choice and Competition Act of 1999 (Chapters 3 and 4) facilitated the restructuring of the electric utility industry in Maryland.

The Act required electric companies to divest themselves of generating facilities or to create a structural separation between the unregulated generation of electricity and the regulated distribution and transmission of electricity. Some electric companies created separate entities to operate unregulated and regulated businesses under a single holding company structure and other companies divested generation facilities. The resulting system of customer choice allows the customer to purchase electricity from a competitive supplier or continue receiving electricity under SOS. Default SOS electric service is provided by a customer's *electric company*. Competitive electric supply is provided by competitive *electricity suppliers*.

Background:

Consumer Education

In accordance with the 1999 legislation deregulating the electric industry, PSC implemented a three-year consumer education program (CEP) to assist residential customers with electric utility industry restructuring beginning in July 2000. To reach these customers, PSC used several strategies including: paid advertising; printed educational materials; community-based outreach; a dedicated website; a dedicated toll-free information line; and campaign research. At the conclusion of the three-year CEP, PSC continued to assist with consumer education.

PSC currently has a customer choice education section on its website and has a prominently displayed link to that section on the homepage of its website. The PSC customer choice web page contains fact sheets and frequently asked questions. Additionally, customers may search for competitive suppliers by service territory. Representatives of PSC currently attend community meetings to educate customers about retail electric choice, and PSC has begun to approach local media to obtain free air time to enhance awareness of retail electric choice. In addition, the Office of People's Counsel (OPC) updates a monthly survey of competitive electric and gas suppliers for each service area. The electric supplier survey includes the duration of each contract, the cost of electricity per kilowatt-hour, and any cancellation fees. A web link to that survey is available on the home page of the OPC website. The survey also provides a link to each competitive supplier's website.

Electric Customer Choice

During the initial transition period from July 1, 2000, through June 30, 2004, rate caps were imposed for residential customers in the PEPSCO and Delmarva service territories. Rate caps in the BGE and Allegheny Power service territories expired June 30, 2006, and December 31, 2008, respectively. In both the BGE and Allegheny Power service

territories, PSC allowed many customers to mitigate the increases through a rate stabilization plan.

The rate caps, which aimed to give the electric industry time to switch to a competitive market, resulted in electricity suppliers being unable to compete with the below-market SOS rates in effect under the residential rate caps. Prior to the expiration of rate caps, the potential savings for residential customers offered by customer choice were limited as few competitive suppliers had offered rates lower than SOS. Since the expiration of rate caps, competitive electricity suppliers are offering retail electric at rates lower than SOS in the State's largest service territories. **Exhibit 1** shows the number of competitive electricity suppliers in each service territory, the current price to compare, and the number of offers. Most competitive suppliers offer customers different options on the length of contract, and the generation source (such as 50% wind or 100% wind).

Exhibit 1
Residential Electric Choice
February 2011 Survey

<u>Service Area</u>	<u>SOS Price (per kWh) to Compare</u>	<u>Competitive Suppliers</u>	<u>Number of Offers</u>
BGE	\$0.1003	12	25
Delmarva	0.0952	4	9
PEPCO	0.1035	6	14
Allegheny Power	0.0747	3	8
SMECO	0.0946	0	0
Choptank	0.0891	0	0

Source: Office of the People's Counsel

Most alternative plans to SOS require a fixed-length contract of at least 12 months and have cancellation fees that range between \$150 and \$200; however, some suppliers are now offering month-to-month supply options. The majority of these alternative plans also include a portion of renewable energy, which may add additional cost. **Exhibit 2** illustrates the number of residential customers that are currently served by competitive electricity suppliers in each service territory.

Exhibit 2
Residential Customers Served by Competitive Suppliers
December 2010

<u>Distribution Utility</u>	<u>Customers Served by Competitive Suppliers</u>	<u>Total Accounts</u>	<u>Percent of Total</u>
Allegheny Power	11,763	220,369	5.3%
BGE	179,801	1,114,743	16.1%
Delmarva	12,759	173,752	7.3%
PEPCO	64,335	487,076	13.2%
Total	268,658	1,995,940	13.5%

Source: Public Service Commission

Since the removal of rate caps for residential customers, the number of residential customers receiving competitive service has increased; however, the majority of residential customers still procure electricity from SOS. Since 2006, the number of residential customers receiving competitive service has increased from 55,024 to 268,658, and the number of nonresidential customers has increased from 57,103 to 87,071. As shown in **Exhibit 3**, the percentage of customers receiving competitive service has increased significantly since December 2006.

Exhibit 3
Percentage of All Customers Served by 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%
Total	4.7%	5.3%	5.1%	7.6%	15.7%

Source: Public Service Commission

Exhibit 4 shows the recent increase in the number of residential electric customers receiving competitive electric service in the major distribution territories.

Exhibit 4
Residential Electric Customers
Receiving Competitive Electric Supply

<u>Distribution Utility</u>	<u>December 2008</u>	<u>December 2009</u>	<u>December 2010</u>
Allegheny Power	40	2,743	11,763
BGE	26,944	53,126	179,801
Delmarva	1,039	2,463	12,759
PEPCO	27,001	40,267	64,335
Total	55,024	98,599	268,658

Source: Public Service Commission

State Expenditures: PSC expenditures for computer software and hardware to create a secure portal for suppliers to submit supply offers and to create a more user-friendly website interface are expected to total \$30,000 in fiscal 2012.

The bill requires PSC to work with local media outlets and develop and air public service announcements. PSC advises that it has begun to approach local media to obtain free air time for public service announcements. If PSC is allowed free access to local media, expenditures may increase minimally for production of public service announcements; however, if PSC is not able to access free media, the costs for television, radio, and other outlets may be significant. Thus, special fund expenditures may increase further beginning in fiscal 2012, and continuing in the out years, to meet this requirement.

Special fund expenditures may also increase, beginning in fiscal 2012, for PSC to hire additional staff to respond to customer inquiries and complaints about supplier misconduct. The amount of additional staff required, if any, depends on the recommendations made by the workgroup and the extent to which they go beyond what PSC would otherwise do in the absence of the bill.

Costs directly incurred by PSC to comply with the website requirements and the public service announcement requirements in the bill must be authorized to be recovered from electric customers of all rate classes. Additionally, costs incurred by PSC must be recovered through the annual assessment on public service companies. Any costs incurred by electricity suppliers as a result of the bill will increase charges to all electric customers. As a result, State expenditures (all funds) for electricity may increase by a minimal amount.

State Revenues: The bill requires PSC to make an assessment on public service companies to cover costs incurred, as described above. Thus, special fund revenues to the Public Utility Regulation Fund increase by the same amount as PSC's expenditures in each fiscal year (at least \$30,000 in fiscal 2012, and an indeterminate amount annually thereafter).

Local Fiscal Effect: Costs incurred by PSC as a result of the bill will increase charges to all electric customers. As a result, local government expenditures for electricity may increase by a minimal amount.

Small Business Effect: Small businesses may be affected to the extent the consumer education program established as a result of the bill goes beyond that which PSC would otherwise do in the absence of the bill. Small businesses that are not currently aware of competitive electricity supply options could benefit from the consumer education program. Small businesses that provide competitive electricity supply also stand to benefit. Consumer education efforts provided by PSC and funded by assessments on all electric companies may significantly increase customer awareness of the competitive supply alternatives without significantly increasing advertising costs for small businesses that provide competitive electricity supply. On the other hand, small businesses themselves could incur additional costs for electricity as a result of the bill's cost recovery provision.

Additional Information

Prior Introductions: SB 942 of 2010, a similar bill, received an unfavorable report from the Senate Finance Committee. Its cross file, HB 1372, passed the House and received a hearing in the Senate Finance Committee, but no further action was taken.

Cross File: HB 597 (Delegate Davis) – Economic Matters.

Information Source(s): Office of People's Counsel, Public Service Commission, Department of Legislative Services

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