

Department of Legislative Services  
Maryland General Assembly  
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 1103

(Senators Teitelbaum and Middleton)

Finance

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Investor-Owned Electric Companies - Electricity Supply

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This bill requires the Public Service Commission (PSC), by regulation or order, to direct each investor-owned electric company to obtain its electricity supply for residential and small commercial customers through a competitive process designed to obtain the best price in light of market conditions at the time of procurement and the need to protect customers from excessive price increases. The competitive process must include a series of competitive wholesale bids in a four-year cycle in which each year the electric company shall solicit bids designed to supply 25% of the anticipated load under a portfolio of blended supply contracts as directed by PSC.

The bill takes effect June 1, 2006.

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Fiscal Summary

**State Effect:** None. The bill would not directly affect State finances.

**Local Effect:** None.

**Small Business Effect:** Potential minimal.

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Analysis

**Current Law:** As of July 1, 2000, all customers of electric companies have the opportunity for choice of electric suppliers. However, a customer has the option to remain with the supplier of the electric utility under standard offer service (SOS). Any obligation of the electric company to continue to offer SOS expired on July 1, 2003 unless PSC found that the market was not competitive. Then PSC could extend the requirement to provide SOS to residential and small commercial customers at a market

price that permits recovery of the verifiable, prudently incurred costs to procure or produce the electricity plus a reasonable return. PSC is to reexamine whether the market is competitive annually. An electric company may procure the electricity needed to meet its SOS from any electricity supplier, including an affiliate of the electric company.

**Background:** In settlement agreements with each of the State's investor-owned utilities, PSC has extended the obligation to provide SOS. The Electric Customer Choice and Competition Act of 1999 required price caps with statewide rate reductions for four years which could be extended by settlement agreement. Under the final settlement agreements, the price caps required under the Electric Utility Restructuring Act of 1999 expired in the PEPCO and Delmarva service territories on July 1, 2004, and are scheduled to expire in the BGE service territory on July 1, 2006, and in the Allegheny service territory on January 1, 2009. Because there continues to be little competition in residential electric service in the State, PSC has extended the obligation to provide SOS in the PEPCO, Delmarva, and BGE service territories by four years after the expiration of the price caps.

Included in the settlement agreements, SOS rates after the rate caps expire include a component for an administrative charge. The total administrative charge is \$0.004 per kilowatt hour. The components of the total administrative charge are: (1) \$0.0015 for the utility reasonable rate of return; (2) \$0.0005 for incremental costs; and (3) \$0.002 for administrative adjustment. The incremental charge allows for uncollectible costs that *cannot* be recovered in a utility's distribution rate such as consultants, auction and procurement costs, and public educational materials. The administrative adjustment is used to adjust the cost of SOS while holding harmless customers through a commensurate credit. It increases the price competitors must outbid, which the settling parties assert will assist the development of a competitive generation market.

To provide SOS, PSC has implemented a process for auctions of blocks of electric load at various times of year and times of day. The electric companies conduct three or four auctions involving offers of load blocks of one, two, and three years' duration on which all other contract terms except price are identical. PSC, the Office of People's Counsel, and an independent market monitor oversee the auction process to ensure against collusion. At the conclusion of the auctions, the prices of the successful bids are blended to arrive at the resulting rate for each class of consumer.

Based on the recent bidding process of three-year terms for the market priced SOS, BGE rates will increase by an average of 72% beginning in July 2006. The average bill will increase by 39% for PEPCO residential customers and by 35% for Delmarva Power and Light residential customers. As a proactive measure, on January 10, 2006, PSC initiated a proceeding to investigate and take actions it may find appropriate to deal with the anticipated price increases (Case No. 9052). PSC staff developed a mitigation plan for

BGE's generation price increase which was adopted on March 6, 2006. The mitigation plan contains the following features:

- BGE Rate Stabilization Plan (the plan) begins in July 2006 and ends May 2008 for most residential customers. This two-year rate mitigation plan allows customers the option of more gradually adjusting to market rates over an extended period of time.
- Low-income customers participating in the Electric Universal Service Program will receive an option of a three-year rate mitigation plan.
- As part of the plan the initial increases will be limited to 21% and customers will receive credits to the distribution portion of their bill from July 2006 to February 2007. For the remaining period of the plan, customers will receive a charge to the distribution portion of their bill to recover the credited amount. At the conclusion of the program, a final true-up will occur for program participants.
- The plan will serve as the default option for residential customers. Customers who wish to pay the full price of electricity beginning July 1, 2006 will have that opportunity.
- BGE will pay the full market price of the electric generation even though customers will only be paying the mitigated amount. PSC has determined that the appropriate interest rate for recovering this short-term deferred balance is 5.0%.
- BGE is required to work with PSC and other interested parties to develop a consumer education plan and enrollment details which must be submitted to PSC by March 31, 2006.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 27, 2006  
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