HB 1525

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1525 (Delegate D. Davis, *et al.*)
Economic Matters Finance

Electric Industry Restructuring - Standard Offer Service

This bill alters the process for electric companies procuring standard offer service (SOS) for residential and small commercial customers. It requires a blended portfolio of wholesale supply contracts to insulate customers from excessive market volatility. The Public Service Commission (PSC) must review the SOS process every two years and report on the status of competition, if any, for residential and small commercial customers.

The bill also increases, by $6 million, energy bill assistance for low-income households through the Electric Universal Service Program (EUSP) in the Department of Human Resources (DHR).

The bill takes effect June 1, 2006.

Fiscal Summary

State Effect: EUSP revenues would increase by $6.0 million annually beginning in FY 2007.

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	$6.0	$6.0	$6.0	$6.0	$6.0
Expenditure	$0	$0	$0	$0	$0
Net Effect	$6.0	$6.0	$6.0	$6.0	$6.0

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

Local Effect: None.

Small Business Effect: Potential minimal.

Analysis

Bill Summary: The bill extends an electric company's obligation to provide SOS unless PSC finds that the electricity supply market is competitive. The bill requires that any rate of return provided to an electric company be consistent with the level of risk in procuring or providing electricity. PSC must reexamine the finding regarding whether the market is competitive at least every two years. Under an extension of SOS, PSC must order each investor-owned electric company to obtain its electricity supply for residential and small commercial customers through a competitive process that is 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, for residential and small commercial customers, must include a series of competitive wholesale bids in which the electric company solicits bids to supply anticipated SOS load for these customers as part of a portfolio of blended supply contracts as PSC directs. A contract to provide electricity supply entered into under an extended SOS remains effective even if PSC subsequently finds the market is competitive, but the contract may not be extended further after PSC so finds.

The bill also makes changes to EUSP. The bill increases the ceiling for assistance from 150% to 175% of the federal poverty level. The bill increases the total annual assessment for EUSP from $34 million to $40 million by raising the assessment on commercial and industrial customers by $3 million, and by requiring utilities to contribute $3 million as a whole from the return component of their administrative charge. The bill also allows the bill assistance benefit under EUSP to be paid monthly rather than in a lump sum.

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 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.

EUSP is a continuing, nonlapsing fund to help electric customers with annual incomes at or below 150% of the federal poverty level. DHR is required to administer the program through the Maryland Energy Assistance Program within the Office of Home Energy Programs (OHEP). DHR may contract with a for-profit or nonprofit Maryland corporation existing as of July 1, 1999 to help administer the program. PSC is responsible for overseeing the program. The universal service program includes: (1) bill assistance, at a minimum of 50% of the individual's need; (2) low-income weatherization; and (3) retiring arrearages.

PSC determines a fair and equitable way of allocating electric customers' charges among all customer classes. The total funds collected for the universal service program are $34 million annually: $24.4 million from the industrial and commercial classes; and $9.6 million from the residential classes. At the end of the fiscal year, any unspent funds collected during that year must be made available for disbursement during the first three months of the next fiscal year to customers who qualify for assistance during the given fiscal year, apply for assistance from the fund before the end of the given fiscal year, and remain eligible for assistance when services are provided. PSC can give an additional three-month extension to disburse the unspent funds in a given fiscal year. Any unspent funds that remain unspent at the end of the allowable period must revert back to each customer class in proportion to their contributions.

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 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.

State Fiscal Effect: The bill increases the revenues for the EUSP fund by $6 million annually beginning in fiscal 2007. The increase in fees is to be achieved through a $3 million increase in assessments on the electric commercial and industrial customer classes, and $3 million from electric utility companies. Increasing the income eligibility limit to 175% of the federal poverty level is expected to make an additional 65,000 households eligible for the program.

OHEP has experienced significant increases in enrollment in the EUSP program. OHEP estimates that fiscal 2007 program enrollment will reach 95,000. The chart below shows the number of applicants and actual program enrollments from fiscal 2002 through 1/20/06.

Fiscal	Applications	Approved	Percentage Approved
2002	64,547	58,263	90.3%
2003	77,025	69,781	90.6%
2004	80,825	72,930	90.2%
2005	88,368	78,668	89.0%
2006 (thru 1/20/06)	76,524	53,718	

The following chart provides the EUSP revenues and expenditures, according to DHR, from fiscal 2002 through 1/18/06.

Fiscal	Revenues	Expenditures	Excess (Deficiency)
2002	$37,775,358	$30,995,459	$6,779,899
2003	31,233,453	32,601,213	(1,367,760)
2004	34,573,915	32,153,765	2,420,150
2005	32,339,581	30,516,239	1,823,342
2006 (thru 1/18/06)	13,148,861	23,041,589	(9,892,728)

Additional Information

Prior Introductions: None.

Cross File: None.

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

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