

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE
Revised

House Bill 60
Economic Matters

(Southern Maryland Delegation)

Finance

Electric Cooperatives - Standard Offer Service Supply Contracts

This emergency bill authorizes electric cooperatives that as of July 1, 2006 purchase energy supply for standard offer service through a portfolio of blended wholesale supply contracts of short, medium, and long terms to continue doing so with appropriate review for prudent cost recovery as determined by the Public Service Commission (PSC). PSC may not set or enforce a termination date for the procurement of supply through a managed portfolio previously approved by PSC.

Fiscal Summary

State Effect: None. The bill would not substantively change the duties of PSC.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Chapter 5 of the 2006 Special Session (SB 1) grants PSC authority to develop standards for a competitive bidding process to be utilized by investor-owned utilities. Regulations should direct investor-owned utilities to solicit bids to supply anticipated standard offer service load for residential and small commercial customers as part of a portfolio of blended wholesale supply contracts of short, medium, or long terms, and other appropriate electricity products and strategies, as needed to meet demand in a cost-effective manner. Municipal electric companies and electric cooperatives were excluded from these requirements. Currently, the procurement methods of electric cooperatives have been established through case rulings published by PSC.

Background: PSC Case 8908 Settlement states that Maryland electric cooperatives may continue to procure power supply for standard offer service in any manner they choose. The settlement specifies that they may purchase wholesale power from third-party suppliers through a competitive bidding process, subject to the commission's authority to determine the reasonableness of the procurement methods used and the rates that result. However, they are not limited to that approach.

Four electric cooperatives operate in Maryland. Two of these, Somerset Rural Electric Cooperative and A&N Electric Cooperative, serve only a small number of customers and are part of larger networks. For these two cooperatives PSC has generally deferred regulation to other states. Choptank Electric Cooperative operates on the Eastern Shore and is a member of the Old Dominion cooperative, which purchases wholesale power on behalf of all its members. Southern Maryland Electric Cooperative (SMECO) has been purchasing power on the competitive open market with the approval of PSC since 2005. SMECO uses the assistance of ACES Power Marketing in purchasing contracts and various forms of risk management.

This bill currently applies only to SMECO. SMECO's standard offer service energy supply strategy incorporates a variety of products purchased on markets, through brokers, and via bilateral negotiations.

In 2004, PSC approved standard offer service purchasing plans for SMECO for 2005 through 2008. In March 2006, SMECO requested that PSC authorize the continuation of its managed portfolio process for acquiring wholesale power supplies indefinitely, without restriction. SMECO informed the commission that removing the limitation will allow it to immediately begin taking advantage of attractively priced blocks of power that SMECO's customers will require in June 2008. In response, PSC extended portfolio purchasing through May 31, 2010 but required SMECO to file testimony on its procurement performance around the beginning of April 2007 to determine if the procurement results have been satisfactory.

Pursuant to PSC directive, SMECO's testimony should compare the results of its procurements for 2005 and 2006 to those of the Maryland investor-owned utilities for the same periods. SMECO has stated in testimony before PSC that it has provided extensive details to parties on acquisition of its 2005 electricity supply and it intends on providing similar information on 2006 electricity supply procurement (PSC Order No. 80839 in Case 8985).

Additional Information

Prior Introductions: None.

Cross File: SB 66 (Senator Middleton, *et al.*) – Finance.

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

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Analysis by: Erik P. Timme

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