HB 1546

Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 1546 (Chair, Economic Matters Committee) (By Request – Departmental – Public Service Commission)

Economic Matters

Public Service Commission - Electricity Supply - Distribution of Costs

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This departmental bill authorizes the Public Service Commission – if it requires an investor-owned electric company to • construct, acquire, or lease and operate generating facilities and associated transmission lines; or • procure electricity directly from an electricity supplier in support of standard offer service – to allocate the costs across all electric companies, electric cooperatives, or municipal electric utilities realizing benefits. Cost allocations have to be in reasonable relation to the benefits, in the form of reduced capacity, congestion, or energy costs or increased reliability customers receive as a result of the procured or acquired generation. Prior to allocating costs, PSC must hold a hearing on the proposed allocation.

The bill takes effect June 1, 2008.

Fiscal Summary

State Effect: Potential special fund expenditures increase associated with the holding of cost-allocation hearings. Special fund revenues would increase by the amount of any additional expenditures from the cost recovery assessment on entities under the jurisdiction of PSC.

Local Effect: Potential expenditure increase to the extent that municipal-owned utilities are assigned cost allocations. Three municipalities, Hagerstown, Berlin, and Easton, have municipal-owned electric utilities.

Small Business Effect: PSC has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: The Electric Customer Choice and Competition Act of 1999 provided that, as of July 1, 2000, all customers of electric companies had the opportunity to choose electric suppliers. Further, the Act 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 Act expired in PEPCO and Delmarva service territories on July 1, 2004, expired in the Baltimore Gas & Electric Company service territory on July 1, 2006, and will expire in the Allegheny service territory on January 1, 2009.

In order to meet long-term, anticipated demand in the State for residential and small commercial standard offer service (SOS) and other electricity supply, PSC may require or allow an investor-owned electric company to construct, acquire, or lease, and operate, its own generating facilities, and transmission facilities necessary to interconnect the generating facilities with the electric grid, subject to appropriate cost recovery.

PSC, after notice and hearings, may adopt regulations that prescribe standards for safe, adequate, reasonable, and proper service by regulated electric companies. Regulated electric companies must furnish equipment, services, and facilities that are safe, adequate, just, reasonable, economical, and efficient, while considering the conservation of natural resources and the quality of the environment.

Case number 9117, Phase II is currently before PSC. One of the two main subject areas identified in the Commission's September 25, 2007 Notice Initiating Phase II Proceeding is the need for utilities to build and procure "new build" capacity to avert a potential electric supply reliability problem within the next four or five years.

Background: Effective July 2000, the Maryland Electric Customer Choice and Competition Act of 1999 restructured the electric utility industry in the State to allow electric retail customers to potentially shop for electric power from various electric suppliers. Implementation of the Act was predicated on the supposition that the emergence of a competitive retail market would put downward pressure on prices and provide consumers with lower cost power. Prior to restructuring, the local electric utility, operating as a regulated, franchised monopoly, supplied all end-use customers within its service area with the three principal components of electric power service: generation; transmission; and distribution. With Maryland's restructuring of the electric power industry, generation of electricity is offered in a competitive wholesale marketplace. Prices for power supply are therefore determined by electric suppliers operating in the market, rather than being determined by PSC in a regulated environment.

Merchant generators or unregulated utility affiliates now own most power plants. Consequently, residential, commercial, and industrial customers purchase power from electric suppliers other than their local regulated utility. Power is purchased from electric suppliers, who either own generation assets or have purchased power from the wholesale market. The regulation of the wholesale market is overseen by the Federal Regulatory Energy Commission. This power is transported through the local utilities' transmission and distribution system (*i.e.*, "the wires") and delivered to retail customers.

Standard Offer Service

The Maryland Electric Customer Choice and Competition Act of 1999 accommodated retail customers that did not shop or could not shop for electric power supplies, while the competitive retail market developed and electric suppliers entered the retail markets to supply electricity products. During a multiyear transition period, the traditional electric utilities made available standard offer service (SOS) at rates frozen and below the rates in effect prior to electric restructuring. For Maryland's various customer classes, these fixed rates have largely expired; however, SOS has been extended and now reflects market prices for power. Coinciding with the removal of fixed SOS rates, was a realization of high and volatile wholesale market prices throughout the region, including the Baltimore/Washington metropolitan area. Higher wholesale market prices reflect higher fuel prices to generate power, barriers to import lower-cost power supplies, and increased costs of environmental compliance.

Local electric companies (*i.e.*, investor-owned utilities) who own the "wires" portion of the electric system obtain electricity supply through a competitive process for residential and small commercial customers that participate in SOS. Electric companies are required to procure electricity for residential and small commercial customers through one or more bilateral contracts. The investor-owned electric companies submit bids to supply anticipated SOS load for residential and small commercial customers, as part of a portfolio of blended wholesale supply contracts. Current SOS contracts for residential and small commercial customers are all two years in length. SOS contracts for medium-size commercial customers are three months in length. The blended portfolio 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.

PJM Interconnection

PJM Interconnection is the regional transmission organization (RTO) that oversees the high-voltage transmission grid and operates the centrally dispatched, wholesale electricity market spanning Maryland and all or part of 12 other states and Washington, D.C. PJM recently approved two large transmission backbone projects to address the region's forecasted reliability shortfall. PJM is also undertaking an auction mechanism, known as the Reliability Pricing Model (RPM), to assist with incentivising market development of generation capacity. As a tool, RPM also stimulates demand response, reduction in power plant retirements, while simultaneously providing financial incentives for the unregulated power plant sector to locate in specific regions. As such, PJM has stepped in to provide a structure supporting the development of what was otherwise expected to be accomplished by individual generation sector participants through free market choice.

At this time, PJM cannot reliability estimate the completion date for the approved transmission lines designed to import capacity from the West. In part, this is due to permitting and siting issues associated with constructing a multistate project of a magnitude that has not been undertaken in decades. As a partial aside, Legislative Services notes that the demand for generation resources to the west of Maryland, upon which new transmission is to import and supply to the State, is also likely to increase in future years. To the extent resources to the West of Maryland will not reliably provide for Maryland's energy needs, other options to ensure power supplies must be supported and developed for the region.

Legislative Services advises that there remains ambiguity regarding the extent to which electric reliability shortfalls will occur in the 2011 to 2012 time period; however, a future of power shortages should be regarded as unacceptable. To the extent PSC approves the construction of new power plants or bilateral contracts for SOS customers that also acts to mitigate the potential effects of a reliability shortfall, all customers in the region will benefit. Consequently, cost recovery from either or both options should be equitably allocated to all affected service territories and customers. Legislative Services notes the lowest cost options can be selected through a competitive bid process.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Natural Resources, Exeter Associates, Maryland Energy Administration, Public Service Commission, Office of People's Counsel, Department of Legislative Services

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