Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 329 (Senator Klausmeier)
Finance

Electric Restructuring - Electricity Supply Services - Residential Customers and Small Commercial Customers

This bill requires the Public Service Commission to establish a Competitive Electricity Supplier Referral Program by October 1, 2008 for residential and small commercial retail electric customers. The bill includes provisions that structure the relationships between electric suppliers and each service territory's electric company. The bill imposes specified requirements on electric companies, and prohibits electric companies from charging specified fees. The bill also defines the manner by which residential and small commercial customers can transfer between electric supply service options.

The bill takes effect June 1, 2008.

Fiscal Summary

State Effect: The Public Service Commission could handle the establishment of a Competitive Electricity Supplier Referral Program with existing resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill requires the Public Service Commission to establish a Competitive Electricity Supplier Referral Program by October 1, 2008 for residential and small commercial retail electric customers. Qualifying electricity suppliers that participate in the program make retail offers at a fixed price per kilowatt hour (kWh) of usage for a term of not less than one year. Offers can include time-of-use and real-time rates.

The bill requires electric companies to provide residential and small commercial customers with a list of qualifying offers from participating electricity suppliers on a quarterly basis. Electric companies must provide customers with "opportunities to learn" about electric suppliers and their ability to contract with electricity suppliers for service. Electric companies must provide information regarding electric suppliers and their products when customers • initiate new electric service; • reinitiate electric service when changing locations; • make inquiries about rates; and • seek information regarding energy efficiency programs or services.

If a customer "chooses to learn," electric companies are to describe the various products offered by electric suppliers to customers. Electric companies must describe the electric suppliers' products in a PSC-approved manner and offer to transfer customers to an electricity supplier's call center when showing interest in contracting with an electricity supplier for service. Transfers must occur immediately.

Electric companies are to make available to a customer or a customer's representative at no charge and in a timely manner, both meter and usage data; however, the customer account number cannot be used.

Residential and small commercial customers receiving electricity supply services from standard offer service may not be charged, at any time, any additional fee by the electric company to switch a customer from one participating electric supplier to another or charge a fee for returning a customer back to standard offer service.

Electric companies are to bill customers for the electric supplier's services. Electric companies will pay electric suppliers the amount due minus a PSC-approved percentage that reflects a measure of realized uncollectible expenses.

With respect to credit, collections, and disconnection of service, electric companies must impose the same terms on customers receiving standard offer service and from service supplied by electricity suppliers.

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.

Prompted by increases in the price of electricity and the slow development of a competitive market for residential electricity supply, the General Assembly convened in special session on June 14, 2006 to consider comprehensive legislation to address electric industry restructuring, standard offer service, rate stabilization plans, and the makeup of PSC. Although Governor Ehrlich vetoed the resulting legislation on June 22, the General Assembly overrode the veto on June 23, enacting comprehensive energy legislation as Chapter 5 of the 2006 special session.

Chapter 5 of the 2006 special session mandated PSC to complete several reports to assist the General Assembly in assessing the impact of electric restructuring on the State and in altering it for the benefit of consumers. PSC was required to study actions taken to implement restructuring and study the impact of potential changes such as re-regulating electric generation or allowing local aggregation.

Chapter 549 of 2007 requires the current PSC to initiate new proceedings to review and evaluate certain requirements of Chapter 5 of the 2006 special session, including the review and evaluation of any orders that were issued under the 2006 enactment. Chapter 549 of 2007 also requires PSC to conduct additional studies and complete reports on the general regulatory structure of the electric industry under the Electric Customer Choice and Competition Act of 1999, including options for re-regulation, if advised. Additionally, PSC is to study and evaluate the status of electric restructuring in the State as it pertains to the current and future availability of competitive generation to residential and small commercial customers and the structure of standard offer service for these small retail electricity customers.

PSC issued a preliminary report identifying the issues relating to options for re-regulation as required and presented the preliminary report to the Maryland General Assembly in December 2007. A final report containing the complete set of evaluations, findings, and recommendations required under Chapter 5, as amended by Chapter 549 of 2007, is due December 1, 2008.

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 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. This power is transported through the local utilities' transmission and distribution system (*i.e.*, "the wires") and delivered to retail customers.

Exhibit 1 presents information on the number of customers served by competitive suppliers within the four largest distribution service territories in Maryland. These service territories (Allegheny Power, BGE, Delmarva Power, and PEPCO) serve approximately 90% of the State's retail customers, as of January 2008. Exhibit 1 indicates that electric suppliers have captured a sizeable portion of medium and large commercial and industrial (C&I) accounts (54.8%) and a relatively smaller share of C&I accounts (22.4%). The bulk of the retail customers are still receiving power from the electric companies under standard offer service. PSC currently has a rulemaking in progress to define small commercial customer.

Exhibit 1
Percent of Customers Served by Competitive Suppliers
(January 2008)

	Customers Served by Competitive Suppliers	Total Customer Accounts	Percent of Customers Served by Competitive Suppliers	Percent of Customers Served by Local Utilities	Total
Residential	54,758	1,969,013	2.8%	97.2%	100%
Small C&I	44,823	200,517	22.4%	77.6%	100%
Medium & Large C&I	16,169	29,513	54.8%	45.2%	100%
Total	115,750	2,199,043	5.3%	94.7%	100%

Source: Public Service Commission

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.

Additional Information

Prior Introductions: None.

Cross File: HB 1165 (Delegate Hecht, *et al.*) – Economic Matters.

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

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