

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 479

(Senator Della)

Finance

**Electric Companies - Assessment Resulting From Default of Payments From
Financial Speculation**

This emergency bill prohibits an electric company that is assessed a sum of money by PJM Interconnection to offset losses caused by a default by a financial speculator from recovering the sum from customers; rather, stockholders through corporate earnings would incur the loss.

Fiscal Summary

State Effect: None. The bill would not materially affect State operations or finances.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The Federal Power Act gives the Federal Energy Regulatory Commission jurisdiction over all wholesale power transactions. The Federal Energy Regulatory Commission issued Order Number 888 in April 1996, requiring all FERC-jurisdictional utilities to provide universal and nondiscriminatory access to the transmission grid under an open access transmission tariff (OATT or tariff), filed on an annual basis with FERC. PJM, as the wholesale operator of the transmission grid in Maryland, all or parts of 12 other states, and the District of Columbia, files its tariff with FERC. PJM's Operating Agreement includes provisions that socialize payment defaults.

Background: The Federal Energy Regulatory Commission has jurisdiction over the interstate transport of electricity. In the wholesale market, an electric company's customers can be another wholesale entity using the electric company's facilities (*e.g.*, the use of transmission lines to transport power across state lines) or the customer can be an end-use, retail customer located in a franchised service territory. FERC approves and reviews rates for wholesale sales of electricity. PJM, as the wholesale operator of the transmission grid in Maryland, files its tariff with FERC.

In 2007, PJM for the first time saw a new interest by new market participants bidding for certain financial hedging instruments. In the summer of 2007, several of these new market participants defaulted on their financial positions. PJM socializes payment defaults.

In a January 2008 letter to its members, PJM advised that tariff revisions to the PJM tariff and the Operating Agreement were developed to reduce the risk of member payment defaults with respect to market hedging tools. Three proposals have received supermajority sector support from the PJM Members Committee. The three revisions were filed with FERC. PJM terminated the transaction rights of four new members when each defaulted on collateral calls prior to being declared in payment default. In February, PJM notified members that the default payment amounts could total as much as \$75 million. PJM's wholesale market service area has a population of about 51 million and a peak demand of 144,644 megawatts.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 7, 2008
mll/hlb

Analysis by: Michael P. Lee

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