Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 1231 (Delegate Taylor, *et al.*)
Economic Matters

Electric Companies - Information on Customer Choice

This bill requires electric companies to include a list of competitive electricity supply options available to each customer with the customer's monthly bill. The bill establishes a Customer Choice Education Fund and allows electric companies to seek reimbursement for verifiable and prudent costs incurred as a result of the bill from that fund. The Public Service Commission (PSC) administers the special fund and must impose a special assessment on electricity suppliers each year to cover expenditures from the fund. The assessment must be at least 30% above the level necessary to reimburse electric companies for costs incurred. Any unspent or unencumbered balance in the fund must revert to the general fund at the end of each fiscal year.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: Special fund expenditures from the Public Utility Regulation Fund increase by $41,500 in FY 2011. Future year expenditures reflect inflation and annualization. Special fund expenditures from the Customer Choice Education Fund increase by an undetermined amount to reimburse electric companies for expenses incurred and revenues to that fund increase from the special assessment on electricity suppliers. General fund revenues increase by a minimal amount.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
GF Revenue	-	-	-	-	-
SF Revenue	-	-	-	-	-
SF Expenditure	$41,500	$49,600	$52,100	$54,600	$57,300
Net Effect	($41,500)	($49,600)	($52,100)	($54,600)	($57,300)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Current Law: The Electric Customer Choice and Competition Act of 1999 (Chapters 3 and 4) facilitated the restructuring of the electric utility industry in Maryland. The Act required electric companies to divest themselves of generating facilities or to create a structural separation between the unregulated generation of electricity and the regulated distribution and transmission of electricity. Some electric companies created separate entities to operate unregulated and regulated businesses under a single holding company structure and other companies divested generation facilities. The resulting system of customer choice allows the customer to purchase electricity from a competitive supplier or continue receiving electricity under standard offer service (SOS). Default SOS electric service is provided by a customer's *electric company*. Competitive electric supply is provided by competitive *electricity suppliers*.

The costs and expenses of PSC and the Office of People's Counsel (OPC) are paid by the public service companies that are subject to the commission's jurisdiction through an annual assessment. Each public service company is charged an assessment based on the ratio of the annual gross operating revenues for the public service company derived from intrastate utility and electricity supplier services and the annual gross operating revenues of all public service companies for those services. Expenses of PSC must be approved through the annual budget process. Any unspent funds must be deducted from the appropriation for the next fiscal year before PSC determines the amount to be paid by each public service company for the next fiscal year. The total assessment charged to a public service company in a fiscal year may not exceed 0.17% of the company's gross operating revenues derived from intrastate utility and electricity supplier operations for expenses incurred by PSC and 0.05% for expenses incurred by OPC.

Background:

Electric Customer Choice

During the initial transition period from July 1, 2000 through June 30, 2004, rate caps were imposed for residential customers in PEPCO and Delmarva service territories. Rate caps in BGE and Allegheny Power expired June 30, 2006 and December 31, 2008, respectively. In both BGE and Allegheny Power service territories, PSC allowed many customers to mitigate the increases through a rate stabilization plan.

The rate caps, which aimed to give the electric industry time to switch to a competitive market, resulted in electricity suppliers being unable to compete with the below-market SOS rates in effect under the residential rate caps. Prior to the expiration of rate caps, the potential savings for residential customers offered by customer choice were limited as few competitive suppliers had offered rates lower than SOS. Since the expiration of rate caps, competitive electricity suppliers are offering retail electric at rates lower than SOS in the State's largest service territories. **Exhibit 1** shows the number of competitive electricity suppliers in each service territory and the current price to compare. In this exhibit, it should be noted that not all electricity suppliers in each service territory are currently allowing new customer enrollment.

Exhibit 1
Residential Electric Choice
March 2010 Survey

Service Area	SOS Price (per kWh) To Compare	Competitive Suppliers	Suppliers With Current Offers Lower Than SOS
BGE	$0.1197	7	5
Delmarva	0.1111	3	1
PEPCO	0.1251	4	2
Allegheny Power	0.0854	2	2
SMECO	0.0946	0	0
Choptank	0.0891	0	0

Source: Office of the People's Counsel

Nearly all alternative plans to SOS require a fixed-length contract of at least 12 months and have cancellation fees that range between $75 and $200. The majority of these alternative plans also include a portion of renewable energy, which may add additional cost. **Exhibit 2** illustrates the number of residential customers that are currently served by competitive electricity suppliers in each service territory.

Exhibit 2
Residential Customers Served by Competitive Suppliers
January 2010

Distribution Utility	Customers Served by Competitive Suppliers	Total Accounts	Percent of Total
Allegheny Power	2,957	219,147	1.3%
BGE	55,075	1,112,815	4.9%
Delmarva	2,478	173,482	1.4%
PEPCO	41,217	483,855	8.5%
Total	**101,727**	**1,989,299**	**5.1%**

Source: Public Service Commission

Since the removal of rate caps for residential customers, the number of residential customers receiving competitive service has increased; however, the majority of residential customers still procure electricity from SOS. Since 2006, the number of residential customers receiving competitive service has increased from 27,768 to 101,727, and the number of nonresidential customers has increased from 10,688 to 71,778. As shown in **Exhibit 3**, the percentage of customers receiving competitive service has increased significantly since 2006.

Exhibit 3
Percentage of All Customers Served by Electricity Suppliers

Customer Class	January 2006	January 2007	January 2008	January 2009	January 2010
Residential	1.4%	2.4%	2.8%	2.8%	5.1%
Small Commercial & Industrial	2.7%	22.3%	22.4%	17.0%	23.4%
Mid Commercial & Industrial	15.9%	51.8%	53.0%	47.3%	51.0%
Large Commercial & Industrial	78.9%	88.4%	89.3%	86.7%	87.9%
Total	**1.8%**	**4.9%**	**5.3%**	**5.1%**	**7.8%**

Source: Public Service Commission

Exhibit 4 shows the recent increase in the number of residential electric customers receiving competitive electric service in the major distribution territories.

Exhibit 4
Residential Electric Customers
Receiving Competitive Electric Supply

Distribution Utility	January 2009	January 2010
Allegheny Power	42	2,957
BGE	26,291	55,075
Delmarva	984	2,478
PEPCO	27,221	41,217
Total	**54,538**	**101,727**

Source: Public Service Commission

State Fiscal Effect: The bill requires PSC to charge a special assessment to electricity suppliers in the State. PSC advises that of the over 100 licensed suppliers, only a small fraction of these suppliers are currently supplying electricity to customers in the State. Therefore, inactive suppliers are not included in the regular annual assessment imposed by PSC for specified operating expenses. As a result, billing and collection from those suppliers will require considerable effort.

Special fund expenditures from the Public Utility Regulation Fund increase by $41,500 in fiscal 2011, which accounts for a 90-day start-up. This estimate reflects the cost of hiring one fiscal accounts clerk to coordinate billing of electricity suppliers. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses

Position	1
Salary and Fringe Benefits	$34,600
Equipment	4,100
Operating Expenses	2,800
Total FY 2011 PSC Administrative Expenditures	**$41,500**

Future year administrative expenditures reflect a full salary with 4.4% annual increases and 3% employee turnover; and 1% annual increases in ongoing operating expenses.

Special fund expenditures from the newly created Customer Choice Education Fund increase for payments made to electric companies to reimburse them for the cost of providing customers with information on competitive supply options. The amount of expenditures will depend on the amount of prudently incurred expenses PSC determines are eligible for reimbursement, and cannot be reliably estimated at this time.

Revenues to the special fund increase from the special assessment on electricity suppliers. The bill requires PSC to set the amount of the special assessment at 30% above anticipated reimbursements. Because any unspent or unencumbered balance remaining in the Customer Choice Education Fund reverts to the general fund at the end of each fiscal year, general fund revenues increase.

There are approximately 1.9 million electric customers currently receiving SOS from electric companies. Under the bill, electric companies are required to provide information on competitive supply options to these customers in their monthly bills. *For illustrative purposes only*, assuming that printing costs for each monthly bill insert total $0.02 per customer, the total estimated costs incurred would be $456,000 annually. PSC would be required to set the special assessment at 30% above those costs; thus, special fund revenues would total $592,800. Of that amount, $456,000 would be provided as reimbursements; and $136,800 would revert to the general fund. This does not account for any additional investment earnings that also are paid into the fund.

Small Business Effect: Small businesses that are not currently aware of competitive electricity supply options could benefit from an increased awareness of lower priced energy supply as a result of the bill.

Small businesses that provide competitive electricity supply also stand to benefit from the bill, as sharing customer information will allow competitive suppliers to direct marketing efforts more efficiently; however, these businesses are negatively affected to the extent a special assessment is charged in excess of the costs necessary to reimburse electric companies for prudently incurred expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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