SB 661

Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 661 (Senator Klausmeier)
Finance

Public Service Commission - Competitive Electricity and Gas Supplier Referral Program

This bill requires the Public Service Commission (PSC) to develop a Competitive Electricity and Gas Supplier Referral Program by October 1, 2010. Under the referral program, each electric company and each gas company must provide notice to eligible new customers about options for seeking competitive natural gas or electricity supply. Electric and gas companies must periodically send existing customers instructions on how to switch to a competitive supplier and provide a list of participating suppliers. Participating suppliers must offer an introductory discount for eligible customers. The bill establishes various requirements on electric companies, gas companies, and participating suppliers.

The bill takes effect June 1, 2010.

Fiscal Summary

State Effect: Special fund expenditures from the Public Utility Regulation Fund increase by $280,500 in FY 2011 for PSC to implement the referral program. Future year expenditures reflect inflation. Revenues are not directly affected.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues	$0	$0	$0	$0	$0
SF Expenditure	280,500	262,400	275,000	288,300	302,400
Net Effect	($280,500)	($262,400)	($275,000)	($288,300)	($302,400)

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: Each electric company and each gas company must provide each eligible customer that initiates new electric or gas service, reinitiates electric or gas service following a change of residence or business location, inquires about electric or gas rates, or seeks information about energy efficiency programs, a list of competitive electricity or gas suppliers and instructions on how to select a competitive supplier. PSC must approve the manner which an electric or gas company provides this information. Additionally, each electric company and each gas company must include in the bill of eligible customers each calendar quarter a list of then-current qualifying electric or gas offers from participating electricity or gas suppliers in a form that will allow the customer to accept an offer by return mail. Each electric company and gas company must operate a telephone call center to implement the referral program

Customers eligible for the referral program include: (1) residential electric and gas customers; (2) commercial retail electric customers that do not have a metered 30-minute demand of 25 kilowatts or more, energy consumption that exceeds 6,000 kilowatt-hours (kWh) during consecutive winter billing months, or a monthly energy consumption that exceeds 7,500 kWh for a single summer billing month; or (3) commercial retail gas customers as defined by a gas company distribution tariff.

An electricity or gas supplier may participate in the referral program if the supplier makes qualifying electricity or natural gas offers at an introductory 10% discount for the first two months of service and the electric or gas supplier participates in a consolidated billing program with an electric or gas company. An eligible customer may only receive one 10% introductory discount for electric supply and one introductory 10% discount for natural gas supply under the referral program.

The bill specifies the procedure by which a customer may switch to a competitive electricity or gas supplier under the referral program and related requirements for electric companies, gas companies, and participating suppliers. The bill requires participating suppliers to provide notice to a customer that the introductory period has ended and information regarding the new price for electricity or gas supply. At the end of the introductory period, a customer will continue to receive electricity or natural gas supply from the competitive supplier unless the customer provides notice to terminate service.

A customer may not be charged a fee by an electric or gas company to switch the customer to a participating supplier, return the customer to standard offer service (SOS), or switch the customer to another participating supplier.

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 SOS. Default SOS electric service is provided by a customer's *electric company*. Competitive electric supply is provided by competitive *electricity suppliers*.

A competitive market for supply of natural gas has been available to large industrial customers since the 1980s. Maryland was one of the first states to consider deregulating natural gas markets for residential and small commercial customers. In 1996 the competitive market was expanded to these classes of customers as a pilot program. Chapter 669 of 2000 granted PSC the same licensing authority of gas suppliers as over electricity suppliers. Default SOS natural gas service is provided by a customer's *gas company*. Competitive natural gas supply is provided by competitive *gas suppliers*.

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 to $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 Power & Light	984	2,478
PEPCO	27,221	41,217
Total	**54,538**	**101,727**

Source: Public Service Commission

Competitive Supply of Natural Gas

Competitive supply of natural gas has seen greater implementation for residential customers than competitive electric supply. **Exhibit 5** shows each natural gas customer class and the percentage of customers that are currently receiving natural gas from a competitive supplier. Between December 2008 and 2009, the number of residential customers receiving natural gas from a competitive supplier increased from 113,781 to 125,366.

Exhibit 5
Percentage of Eligible Customers Served by Competitive Natural Gas Supply
December 2009

Distribution Utility	Residential	Firm Service Commercial and Industrial	Daily-Metered and Interruptible	Total
BGE	9.9%	23.1%	87.1%	10.9%
Chesapeake Utilities	NA	71.4%	100.0%	71.9%
Columbia Gas, Maryland	2.6%	4.7%	48.2%	3.1%
Elkton Gas	NA	0.0%	0.0%	0.0%
Washington Gas	15.8%	41.1%	100.0%	17.6%
Total	**12.00%**	**29.00%**	**82.80%**	**13.30%**

Source: Public Service Commission

State Expenditures: The bill requires PSC to approve competitive electricity and gas suppliers that participate in the referral program. There are approximately 23 competitive electricity suppliers and 15 competitive gas suppliers that are licensed by PSC and actively seeking customers. Additionally, PSC must approve the manner in which each electric company and each gas company will provide eligible customers with opportunities to contract with a competitive electricity or gas supplier.

Electric and natural gas customers who enter into supply agreements with competitive suppliers and have complaints will go to PSC to resolve those complaints. As advised by PSC, in 2009, PSC handled a large call volume from customers whose contracts for competitive natural gas supply expired and reset at a significantly higher rate. For these reasons, PSC anticipates a significant increase in inquiries and complains as a result of the bill’s referral program. There are currently over 1.9 million SOS residential electric customers and 1.0 million SOS residential natural gas customers that, as a result of the bill, will receive periodic solicitations from their respective electric companies and gas companies to select competitive electricity and gas suppliers.

Special fund expenditures from the Public Utility Regulation Fund increase by $280,531 in fiscal 2011, which assumes a July 1, 2010 implementation date. This estimate reflects the costs of hiring one administrative officer, three administrative specialists, and one secretary to implement the referral program and handle related requests/inquiries. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	5
Salaries and Fringe Benefits	$243,556
Equipment	21,525
Operating Expenses	15,450
Total FY 2011 State Expenditures	**$280,531**

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

Small Business Effect: Small businesses that are not currently aware of competitive electricity or natural gas supply options could benefit from a referral to a lower priced electric and natural gas supply as a result of the bill. Small businesses that provide competitive electricity or natural gas supply also stand to benefit from the bill. Creating a referral program will increase customer awareness of the competitive supply alternatives without significantly increasing advertising costs for those businesses.

Additional Information

Prior Introductions: SB 329 of 2008, a bill with similar provisions, received a hearing in the Senate Finance Committee but no further action was taken. Its cross file, HB 1165, received an unfavorable report from the House Economic Matters Committee.

Cross File: HB 697 (Delegate Hecht, *et al.*) - Economic Matters.

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

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