

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1372
Economic Matters

(Delegate Hecht, *et al.*)

Finance

Public Service Commission - Customer Education on Customer Choice

This bill requires the Public Service Commission (PSC) to provide specified user-friendly information on electric customer choice on its web site. PSC must develop and air public service announcements publicizing customer choice and must recover costs incurred in implementing the bill through its regular assessment process. The bill also requires PSC to convene a workgroup to advise it on implementation of the bill; recommend additional customer education mechanisms on customer choice; and establish an appropriate schedule for developing, funding, and deploying customer education materials on customer choice. The workgroup must report to PSC and specified legislative committees by December 31, 2010. The workgroup's recommendations must be implemented by PSC by March 31, 2011. PSC must report annually to the General Assembly on the status and success of efforts to educate customers about customer choice under the bill.

The bill takes effect June 1, 2010.

Fiscal Summary

State Effect: Special fund expenditures from the Public Utility Regulation Fund increase by *at least* \$151,000 in FY 2011 to staff the workgroup and develop a customer education program; future year expenditures reflect inflation. Special fund expenditures increase further for PSC to develop and air public service announcements and to fully implement the workgroup's recommendations. Special fund revenues increase correspondingly as PSC costs are recovered through an increase in the annual assessment on electric companies and electricity suppliers. State expenditures (all funds) for electricity may increase minimally.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenue	\$151,000	\$113,700	\$119,100	\$124,800	\$130,800
SF Expenditure	\$151,000	\$113,700	\$119,100	\$124,800	\$130,800
GF/SF/FF Exp.	-	-	-	-	-
Net Effect	\$0	\$0	\$0	\$0	\$0

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

Local Effect: Local government expenditures for electricity may increase minimally.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: PSC must host and regularly update a user-friendly customer choice education section on its web site and prominently display a link to that section on the homepage of its web site. The education section must comply with standards adopted under § 508 of the federal Rehabilitation Act of 1973, which require accessibility of these published media to individuals with disabilities, such as the blind and visually impaired. The bill specifies what information must be provided on the web site regarding customer choice, including fact sheets with frequently asked questions. The web site must allow a customer to search for current competitive supply offers by service territory or jurisdiction. To the extent practicable, PSC must include the terms of any open offers, including the duration of the contract, the cost of electricity per kilowatt hour, and any cancellation fees, and must provide a link to each competitive supplier's web site. PSC is required to provide a secure portal on its web site for electricity suppliers to submit updated information on current supply offers. Through the secure portal, electricity suppliers must update current supply offers at least once a month.

PSC must work with media outlets in the State to develop and air public service announcements publicizing customer choice and directing customers to the PSC web site for more information.

PSC must recover costs incurred in implementing the bill through its annual assessment on electric companies and electricity suppliers. By December 31 of each year PSC must report to the General Assembly on the status and success of PSC's efforts to educate customers about customer choice under the bill.

By July 1, 2010, PSC must convene a specified workgroup of interested parties to advise it on improvements to the PSC web site information and presentation concerning customer choice and additional information and methods of consumer education that can effectively supplement the bill's requirements. The workgroup must study specified

issues and must develop recommendations for implementing suggested changes, new materials, and public outreach, including as appropriate a schedule for developing, funding, and deploying customer education and materials on customer choice. The workgroup must report its recommendations to PSC and to the Senate Finance and the House Economic Matters committees by December 31, 2010, and PSC must implement the recommendations of the workgroup by March 31, 2011.

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*.

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 PEPSCO 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

<u>Service Area</u>	<u>SOS Price (per kWh) To Compare</u>	<u>Competitive Suppliers</u>	<u>Suppliers With Current Offers Lower Than SOS</u>
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

<u>Distribution Utility</u>	<u>Customers Served by Competitive Suppliers</u>	<u>Total Accounts</u>	<u>Percent of Total</u>
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

<u>Customer Class</u>	<u>January 2006</u>	<u>January 2007</u>	<u>January 2008</u>	<u>January 2009</u>	<u>January 2010</u>
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

<u>Distribution Utility</u>	<u>January 2009</u>	<u>January 2010</u>
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 Expenditures: PSC advises that based on past experiences with customer outreach, PSC anticipates a significant increase in customer calls and inquiries in response to public service announcements and the customer education programs recommended by the workgroup. As a result, PSC advises that one administrative officer, five administrative specialists, and one office secretary will be required to staff the required workgroup, implement a program on customer choice, and respond to customer inquiries. PSC also advises that it will require additional computer hardware and software to implement the bill’s web-based requirements.

Customer Education Workgroup and Program – Minimal Fiscal Impact

Legislative Services advises that expenses incurred by PSC will depend greatly on the recommendations made by the workgroup which will design the customer education program with input from State agencies and industry participants. At a minimum, PSC will be required to staff meetings, contribute to the development of a customer education program, administer the program developed by the workgroup, and add features to the PSC web site. Assuming the workgroup requires PSC to take significant action, special fund expenditures from the Public Utility Regulation Fund increase by \$150,984 in fiscal 2011, which assumes a July 1, 2010 implementation date. This estimate reflects the cost of hiring one program manager and one administrative officer to develop and begin implementing the consumer education program. The estimate also includes the cost of computer software and hardware to implement the bill’s web-based information requirements.

Positions	2
Salaries and Fringe Benefits	\$104,609
Web Site-related Software and Hardware	31,900
Other Equipment and Operating Expenses	<u>14,475</u>
Minimum Fiscal 2011 PSC Expenditures	\$150,984

Future year minimum PSC expenditures reflect full salaries with 4.4% annual increases and 3% employee turnover; and 1% annual increases in ongoing operating expenses. To the extent the workgroup’s recommendations impose few ongoing requirements for PSC, there may not be a need for additional staff, or any positions initially created could presumably be eliminated once the program is developed.

Customer Education Program – Potential Significant Fiscal Impact

The amount of additional expenses incurred by PSC to develop and air public service announcements and to fully implement the workgroup’s recommendations regarding the

customer education program cannot be reasonably ascertained at this time, and are therefore not included in the above estimate, but may be significant.

Customer Education Program – Impact on Ratepayers

The source of long-term funding for the customer education efforts required under the bill is unclear. The bill requires PSC to recover its costs incurred through its annual assessment on electric companies and electricity suppliers; however, the workgroup convened may also make recommendations regarding the appropriate funding source for customer education programs.

Expenses incurred by PSC and charged to electric companies and electricity suppliers through the annual assessment are eventually paid by all electric customers. If PSC expenditures increase significantly, electricity charges to all ratepayers may increase by a minimal amount. In fiscal 2009, State agencies and the University System of Maryland spent approximately \$223.0 million on electricity. For each 1% increase in electricity prices, State expenditures increase by \$2.2 million.

If the workgroup determines that competitive electricity suppliers, rather than PSC, should provide funding for customer education efforts, additional expenses incurred by PSC will be minimal and electricity charges for ratepayers will not be materially affected.

State Revenues: The bill requires PSC to recover its costs in implementing the bill's requirements through its regular assessment process. Thus, special fund revenues to the Public Utility Regulation Fund increase by the same amount as PSC's expenditures in each fiscal year.

Local Fiscal Effect: Costs incurred by electric companies as a result of the bill's cost recovery provision will increase charges to all electric customers. As a result, local government expenditures for electricity may increase by a minimal amount.

Small Business Effect: Small businesses that are not currently aware of competitive electricity supply options could benefit from the consumer education program established as a result of the bill. Small businesses that provide competitive electricity supply also stand to benefit from the bill. Consumer education efforts provided by PSC and funded by assessments on all electric companies may significantly increase customer awareness of the competitive supply alternatives without significantly increasing advertising costs for small businesses that provide competitive electricity supply. On the other hand, small businesses themselves could incur additional costs for electricity as a result of the bill's cost recovery provisions.

Additional Information

Prior Introductions: None.

Cross File: SB 942 (Senator Pugh, *et al.*) - Finance.

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

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Analysis by: Erik P. Timme

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