

Department of Legislative Services  
Maryland General Assembly  
2010 Session

**FISCAL AND POLICY NOTE**

Senate Bill 942

(Senator Pugh, *et al.*)

Finance

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**Public Service Commission - Customer Education on Customer Choice**

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This bill requires the Public Service Commission (PSC) and electric companies to take certain efforts to increase awareness of competitive electric supply options. PSC must host and regularly update a customer choice education page on its web site and must work with local media outlets to develop and air public service announcements publicizing customer choice. Electric companies must provide customers with information about competitive electricity supply options, and PSC must convene a workgroup of interested parties to determine what should be included in that information. The bill specifies that PSC must recover its costs to implement the bill from the annual assessment on electric companies and electricity suppliers, and must authorize electric companies to recover compliance costs from all customers through a mechanism approved by PSC.

The bill takes effect July 1, 2010.

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**Fiscal Summary**

**State Effect:** Special fund expenditures from the Public Utility Regulation Fund increase by *at least* \$191,700 in FY 2011 to administer the customer choice provisions and respond to customer inquiries; future year expenditures reflect annualization and inflation. Special fund expenditures increase further for PSC to develop and air public service announcements. Special fund revenues increase correspondingly as 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	\$191,700	\$204,600	\$214,500	\$224,900	\$235,800
SF Expenditure	\$191,700	\$204,600	\$214,500	\$224,900	\$235,800
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:** Each electric company that provides standard offer service (SOS) must provide its customers with information about competitive electricity supply and include instructions on how to find additional information on the PSC web site. This information must be included as a yearly bill insert, as part of any company newsletter to customers, and as part of any existing educational campaign related to energy efficiency and conservation. If PSC determines that an electric company has incurred additional costs from complying with this requirement, PSC must authorize these costs to be recovered from all customers of all rate classes through a mechanism determined by PSC.

PSC must convene a specified workgroup of interested parties to make a recommendation about what information should be provided to customers by electric companies. The recommendations of the workgroup must be adopted either through regulation or order by December 1, 2010.

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 bill specifies what information must be provided on the web site regarding customer choice, including fact sheets with frequently asked questions, and must allow a customer to search for current competitive supply offers by zip code. To the extent practical, PSC must update 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 is required to 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 is required to consult with the Maryland Energy

Administration more and the Office of People's Counsel about the best way to promote customer choice, and PSC must report to the General Assembly by December 31 of each year on the status and success of its efforts to educate customers about customer choice.

PSC must recover costs incurred under the bill through its annual assessment on electric companies and electricity suppliers.

**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.

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**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

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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.

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**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%
<b>Total</b>	<b>101,727</b>	<b>1,989,299</b>	<b>5.1%</b>

Source: Public Service Commission

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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%
<b>Total</b>	<b>1.8%</b>	<b>4.9%</b>	<b>5.3%</b>	<b>5.1%</b>	<b>7.8%</b>

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
<b>Total</b>	<b>54,538</b>	<b>101,727</b>

Source: Public Service Commission

**State Expenditures:** Based on past experiences with customer outreach, PSC anticipates a significant increase in customer calls in response to public service announcements and information on customer choice sent to residential customers. Additionally, the web-based requirements specified in the bill will require additional computer software and hardware. As a result, special fund expenditures increase by at least \$191,700 in fiscal 2011, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring one additional office secretary and three administrative specialists to administer the customer choice provisions and respond to customer inquiries. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The estimate includes the cost of computer software and hardware to implement the bill’s web-based information requirements.

Positions	4
Salaries and Fringe Benefits	\$141,455
Web site-related Software and Hardware	21,900
Other Equipment	16,725
Operating Expenses	<u>11,625</u>
<b>Minimum FY 2011 PSC Expenditures</b>	<b>\$191,705</b>

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.

The bill requires PSC to work with local media outlets and develop and air public service announcements. The cost to develop these announcements cannot be reasonably ascertained at this time, and are therefore not included in the above estimate, but may be significant.

Costs directly incurred by electric companies to comply with the bill must be authorized to be recovered from electric customers of all rate classes. Additionally, costs incurred by PSC must be recovered through the annual assessment on electric companies and electricity suppliers. Any costs incurred by electric companies as a result of the bill will increase charges to all electric customers. As a result, State expenditures (all funds) for electricity 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.

**State Revenues:** The bill requires PSC to make an assessment on electric companies and electricity suppliers to cover costs incurred by PSC as a result of the bill. 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 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 bills cost recovery provisions.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1372 (Delegate Hecht, *et al.*) - Economic Matters.

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

**Fiscal Note History:** First Reader - March 11, 2010  
ncs/lgc

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