

Department of Legislative Services
 Maryland General Assembly
 2010 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 744 (Delegate Rosenberg, *et al.*)
 Economic Matters

Electricity - Competitive Supply - Information

This bill requires the Public Service Commission (PSC) by January 1, 2011, to implement a consumer education program to inform electric customers of changes in the electric industry and of the availability of competitive supply of electricity in each service territory. PSC must develop the program with the advice of a workgroup as specified in the bill. As part of the program, PSC must develop and maintain web-based information regarding rates and services for residential and small commercial electric customers. The bill also establishes related requirements for electricity suppliers. PSC may make an assessment on electric companies and electricity suppliers to fund the implementation and maintenance of the consumer education program.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: Special fund expenditures from the Public Utility Regulation Fund increase by at least \$311,800 in FY 2011 for five additional PSC staff to administer a consumer education program. Future years reflect inflation. Special fund expenditures could increase by an additional \$500,000 to \$1.5 million annually between FY 2011 and 2013, depending on the scope of the consumer education program. Special fund revenues increase correspondingly, due to the assessment authorized by the bill to fund the program.

| (in dollars) | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|----------------|-----------|-----------|-----------|-----------|-----------|
| SF Revenue | \$311,800 | \$294,300 | \$308,100 | \$322,600 | \$338,000 |
| SF Expenditure | \$311,800 | \$294,300 | \$308,100 | \$322,600 | \$338,000 |
| Net Effect | \$0 | \$0 | \$0 | \$0 | \$0 |

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The web-based information PSC develops and maintains must include several specified items. Among the required items is an active web-based tool to allow customers to search for available competitive electricity supply offers. Some of the required information must be updated monthly, and some must be updated quarterly. The consumer education may also use bill inserts, advertisements, and other appropriate means to advise customers of the availability of customer choice.

Electricity suppliers must provide PSC with current pricing for competitive supply offers and must notify PSC whenever a new program is offered or whenever an existing program ends.

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).

Background:

Consumer Education

In accordance with the 1999 legislation deregulating the electric industry, PSC implemented a three-year consumer education program (CEP) to assist residential customers with electric utility industry restructuring beginning in July 2000. To reach these customers, PSC used several strategies including: paid advertising; printed educational materials; community-based outreach; a dedicated web site; a dedicated toll-free information line; and campaign research. **Exhibit 1** demonstrates the level of activity conducted by CEP.

Exhibit 1
Consumer Education Program Activities
Fiscal 2001 through 2002

| <u>CEP Method</u> | <u>Activity</u> |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| Answer Center | 60,071 calls received (through May 31) |
| Consumer Guide Orders | 119,914 requested |
| Other Brochure Orders | 36,012 requested |
| Community-based Outreach | 165 community group meetings 55 presentations 85 train-the-trainer sessions 50 events at which materials were distributed |

Source: *Consumer Education Program: Second Year Performance Report and Third Year Plan*, September 2001, Public Service Commission

At the conclusion of the three-year CEP, PSC continued to assist with consumer education. PSC staff have attended numerous community outreach efforts on electric choice and a variety of other issues. PSC currently provides a listing of licensed electricity suppliers as well as electricity suppliers currently seeking customers. The Office of the People's Counsel provides an online listing of competitive electricity suppliers in each customer service territory and the current price to compare.

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 2** shows the number of competitive

electric 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 2
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 to \$200. The majority of these alternative plans also include a portion of renewable energy, which may add additional cost. **Exhibit 3** illustrates the number of residential customers that are currently served by competitive electricity suppliers in each service territory.

Exhibit 3
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 4**, the percentage of customers receiving competitive service has increased significantly since 2006.

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

Exhibit 5
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 Power & Light | 984 | 2,478 |
| PEPCO | 27,221 | 41,217 |
| Total | 54,538 | 101,727 |

Source: Public Service Commission

State Expenditures: For the initial consumer education program following deregulation in 1999, PSC was provided \$6.0 million in the first year and authorized up to \$18 million in total for the three-year program. PSC awarded a three-year consulting contract valued at \$11.07 million to a media relations firm for customer outreach. PSC also dedicated multiple staff members to field phone inquiries, perform community outreach, and make public appearances.

Consumer Education Workgroup – Minimum Fiscal Impact

The bill requires PSC to convene a workgroup to develop a new consumer 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 the consumer education program, and administer the program developed by the workgroup. As a result, special fund expenditures from the Public Utility Regulation Fund increase by at least \$311,801 in fiscal 2011, which accounts for the bill's July 1, 2010 effective date. This estimate of PSC's minimum costs reflects the cost of hiring a program manager, three administrative officers, and a secretary to develop and implement the consumer education program. This estimate assumes that PSC can implement the bill's web-based information requirements with existing resources.

| | |
|-------------------------------------|------------------|
| Salaries and Fringe Benefits | \$269,455 |
| Equipment | \$21,182 |
| Operating Expenses | <u>\$21,164</u> |
| Minimum FY 2011 Expenditures | \$311,801 |

To the extent a consumer education program is more limited in scope than currently anticipated, costs could be less.

Future year estimates of minimum expenditures reflect full salaries with 4.4% annual increases and 3% employee turnover; and 1% annual increases in ongoing expenses.

Consumer Education Program – Potential Significant Fiscal Impact

Costs to implement the consumer education program could be slightly higher depending on the scope and activities of the program. PSC may require up to an additional two staff (seven in total) to administer a more comprehensive consumer education program, which would likely result in an increase in customer inquiries.

In addition, based on PSC’s consumer outreach activities following restructuring, an effective consumer education program is likely to include additional significant expenditures for advertising through different forms of media, printing for information pamphlets, community outreach, and possibly a dedicated toll-free call center. Accordingly, costs could range from \$500,000 to \$1.5 million annually in fiscal 2011 through 2013.

State Revenues: The bill authorizes PSC to make an assessment on electric companies and electricity suppliers to fund the implementation and maintenance of the consumer education program required by the bill. As a result, special fund revenues to the Public Utilities Regulation Fund increase by the same amount as PSC’s expenditures in each fiscal year.

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. A consumer education program implemented by PSC and funded by assessments on all electricity suppliers and 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.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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