

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 974
Finance

(Senator Pugh, *et al.*)

Electric Companies and Electric Cooperatives - Standard Offer Service - Service Rights Auctions

This bill requires the Public Service Commission (PSC) to study and make recommendations regarding the advisability of: (1) establishing an auction among retail electric companies for the right to provide electric service to electric customers using standard offer service (SOS) in certain service territories; and (2) allowing electric cooperatives to participate or establishing a separate auction for such entities. PSC must also study and make recommendations about how an auction must be conducted. PSC recommendations must consider the best interests of electric customers relating to the cost and reliability of electric service. PSC must report its recommendations to the Senate Finance Committee and the House Economic Matters Committee by December 31, 2012.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: PSC can implement the bill with existing budgeted resources.

Local Effect: None.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: PSC must study and make recommendations about the advisability of: (1) establishing an auction among retail electric companies for the right to provide

electric service to SOS customers in the current service territories of Potomac Electric Power Company, Allegheny Power, Baltimore Gas and Electric Company, or Delmarva Power and Light Company; and (2) allowing electric cooperatives to participate in the auction or establishing a separate auction among electric cooperatives for the right to provide electric service to customers using SOS in their service territories.

PSC must also study and make recommendations about the manner in which an auction should be conducted, including (1) provisions relating to low-income customers; (2) the frequency and timeframe for auctions; (3) procedures governing auctions; and (4) the disposition of proceeds from auctions to benefit residential electric customers. In making its recommendations, PSC must consider the best interests of electric customers relating to the cost and reliability of service.

Current Law: Since electric industry restructuring in 1999, residential electric customers may choose to purchase electricity from competitive electricity suppliers. Customers that do not actively choose a competitive supplier continue to receive their electric supply through SOS, which is provided by investor-owned electric companies (utilities) who own the distribution portion of the electric system.

To obtain the best price for SOS for residential and small commercial customers, PSC may require each utility to obtain its electricity supply for SOS through a competitive process. PSC may also require or allow utility to procure electricity for these customers directly from an electricity supplier through one or more bilateral contracts outside the competitive process. Under the Code of Maryland Regulations (COMAR 20.52.04.01), PSC determines the model request for proposals (RFP) to be used for SOS electricity procurement, and electric companies submit a utility bid plan based on the model RFP. The model RFP may not be altered unless it is necessary to conform to utility-specific conditions.

The procurement of supply for SOS is accomplished through a series of bidding auctions during the year for blocks of supply. The SOS product can (1) include a blended portfolio of short-, medium-, and long-term contracts to address different portions of customer load; and (2) include cost-effective energy-efficiency and conservation measures. Also, the names of successful bidders in the auction must be disclosed. For residential service, PSC currently requires utilities to use a series of rolling two-year contracts auctioned up to four times each year.

Background: All electric customers are currently subject to market rates, either by directly choosing a competitive supplier, or by taking SOS from a utility. Each utility purchases the electricity supply for its SOS customers from unregulated wholesale suppliers, who own power plants and produce electricity or who buy and sell it on the

wholesale market. Bid offers with the lowest price are selected. Electricity to meet SOS supply is bid through a blended portfolio, which mitigates the potential for sudden retail price changes due to volatile wholesale market conditions. Additionally, in order to prevent an excessive amount of load from being exposed to upward market price risks and volatility, PSC may stagger the dates of the wholesale auctions.

As shown in **Exhibit 1**, the percentage of customers receiving competitive service has increased significantly since December 2007.

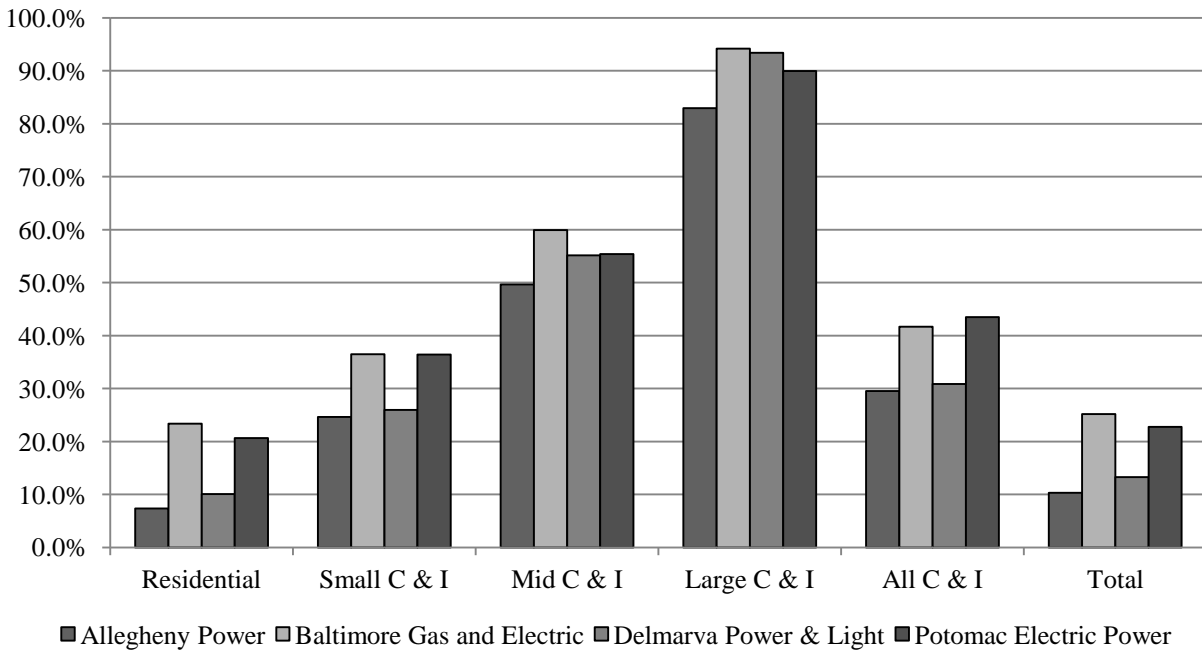
Exhibit 1
Percentage of All Customers Served by Competitive Electricity Suppliers

<u>Customer Class</u>	<u>December 2007</u>	<u>December 2008</u>	<u>December 2009</u>	<u>December 2010</u>	<u>December 2011</u>
Residential	2.8%	2.8%	5.0%	13.5%	19.8%
Small Commercial & Industrial	22.5%	17.3%	23.2%	27.9%	33.1%
Mid Commercial & Industrial	52.8%	47.0%	50.9%	54.4%	56.8%
Large Commercial & Industrial	89.0%	87.0%	88.6%	88.2%	91.5%
Total	5.3%	5.1%	7.6%	15.7%	21.8%

Source: Public Service Commission

Exhibit 2 shows the percentage of customers served by competitive suppliers in each distribution territory as of December 2011. Competitive customer choice remains most prevalent in large commercial and industrial customers, and there is significant variation in residential customer enrollment by service territory.

Exhibit 2
Percentage of Customers Served by Competitive Suppliers
By Distribution Territory
December 2011



C & I: Commercial and industrial
 Source: Public Service Commission

State Fiscal Effect: Under the bill, PSC will be required to consider significantly changing the market for retail electricity in the State. Instead of having utilities procure supply for SOS customers, competitive suppliers would bid for the right to provide electric service to electric customers using SOS. As advised by PSC, proposals under which an electricity supplier would compete to become the SOS provider for one or more utility service territories have been considered under Case Number 9117. Through that proceeding, PSC is investigating various ways to enhance SOS procurement. PSC advises that since the commission is currently overseeing procurement of electricity for SOS customers, the bill can be implemented with existing budgeted resources.

Small Business Effect: Allowing competitive suppliers to bid for the right to supply electricity may enable these companies to significantly increase their customer base. To the extent that PSC recommends establishing an auction for the right to supply electric

service to SOS customers, any affected suppliers that are considered small businesses benefit.

Additional Information

Prior Introductions: HB 1322 of 2011 received an unfavorable report from the House Economic Matters Committee.

Cross File: HB 1028 (Delegate Barkley, *et al.*) - Economic Matters.

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

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