Maryland Public Service Commission

Pennsylvania Public Utility Commission
Provider of Last Resort Roundtable
Docket No. M-00041792

New Maryland Default/POLR Service Framework

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*The opinions expressed by Mr. Carmean do not necessarily reflect the views of the Maryland PSC.

Maryland Customer Choice
A Brief History

- Electric Customer Choice and Competition Act passed by General Assembly in 1999
- Goals of the Act:
  - Establish customer choice
  - Create competitive retail electricity supply market
  - Deregulate the electric generation market
  - Provide economic benefits to all customer classes
  - Ensure compliance with federal and state environmental standards

Initial Maryland Transition Period

- All Maryland IOU customers allowed choice July 2000 and rates unbundled
- Original Standard Offer Service (SOS) established by individual settlements with 4 IOUs
- Residential customers received an average 6% rate reduction
- Various transition periods with frozen/capped rates
  - APS Non-residential ends 12/04, Residential ends 12/08
  - BGE Most non-residential ends 7/04 (largest C&I ended 7/02), Residential ends 7/06
  - Conectiv Originally 7/03 extended to 6/04 for non-residential (with 5% increase) and 7/04 for residential
  - Pepco ends 7/04 for all customers
- Market based prices replace capped rates at end of transition period

Retail Rate Freezes and Competition

- Generation rate freezes ending in Maryland and other restructured states
- Rate freezes generally slowed development of retail and wholesale competition
  - Wholesale slowed by price ceiling on bids for supply
  - Retail slowed because administratively determined rates may have little relationship to actual cost of providing retail generation service
- Situation even worse if utility was allowed stranded cost recovery or had mandatory rate reductions
  - Price ceiling for wholesale bids even lower
  - Shopping credit for retail even harder to beat

Maryland Goals and Objectives for Default Service

- Fostering competition
  - Full retail priced default/Standard Offer Service ("SOS") essential for retail competition
  - Transparent rules based competitive procurement of SOS following Commission ordered model (prospective rather than retrospective prudence) fosters wholesale competition
- Post-rate freeze transition period
  - Utilities provide SOS for specified time periods
  - Price and market stability characteristics appropriate to different customer groups (residential, small, medium and large C&I)

Why the Utility?

- Political considerations
  - Increased “comfort” to move forward with transition to competition
  - Eliminated issues of regulatory oversight required by a non-utility default service (“retail bidding”) model
- Pragmatic considerations
  - Even the two years MD had for development and implementation not enough to address all retail bidding issues
  - Clear jurisdiction over utility for programs details
- Policy issues
  - No single (or small number) of retail supplier(s) given initial advantage of customer base (as happens with retail bidding)

It's (almost) all about the retail price

- Only one default service option and price for most customers
  - No special "loyalty" low price for customers who stay on SOS or special "disloyalty" high price for returning customers
- Retail SOS price (also called "price to compare," "shopping credit," default service, or POLR service price) has 4 components:
  - Market priced wholesale power supply
  - Transmission
  - Administrative charge (also called "retail adder")
  - Applicable taxes
- The components add up to the price the customer sees and pays
- Components represent real costs of providing retail service faced by all retail suppliers - including the utility

More on Retail SOS Price Components

- Power supply component
  - Four different stable price service types for each utility - Residential, small C&I, medium C&I, large C&I
  - Hourly priced service only option for large C&I after 1st year
  - For most service types wholesale suppliers bid prices for all rate elements of current retail rate design (includes TOU and demand rates as applicable)
  - Best procured through "sealed bids" rather than auction format
- Transmission component
  - kwh usage (and as applicable demand) charges that recover in aggregate actual PJM network transmission and other charges specified as the responsibility of the utility
- Administrative charge - The key element in full retail price
  - Ranges from 4.0 mills/kwh for residential to 6.5 mills/kwh for large C&I
  - Includes return to utility and incremental costs related to SOS (uncollectables, service procurement and management, billing, etc.)
  - Revenue in excess of identified cost items credited to all distribution customers (not just SOS customers) eligible for that service type.

Hourly Priced Option Price Components

- Available to all large C&I customers
- Power supply component is aggregate zone LMP for each utility
- Capacity component generally PJM spot capacity price (although utilities have option to competitively procure capacity component)
- Transmission component is all network transmission, ancillary service, etc. costs
- Applicable taxes
- Administrative charge between 2.25 and 3 mills/kwh based on utility return of 2.25 mills plus actual incremental service costs and uncollectables

Other Key Elements of Framework

- Utility may not promote its SOS beyond basic information
- Customers can move to or from SOS month to month with no utility fees or charges (does not remove obligations a customer may have in their contract with a retail supplier).
- C&I services have provisions that limit volume risk
- Mechanism allowing wholesale suppliers to pass along costs for specified changes in PJM charges and commercially reasonable increased costs from changes in renewable resource requirements following the bidding process to retail customers with Commission approval.
- Retail price is stable but not fixed due to actual cost true-ups
  - Actual costs of four rate components matched to actual revenue
  - Cost changes due to PJM transmission rate change and renewables requirements change provisions
  - Actual costs of volumetric mitigation and administrative charge components

How Long Does the Framework Last?

- Basic framework for Residential and small C&I SOS remains the same for 4 years after service begins for each utility
- Framework for medium C&I SOS remains the same for two years
- Framework for large C&I SOS exists for only one year
- Hourly priced service remains the same for at least two years
- Major policy review specified for each service to determine future of service following periods specified above.

The Making of the Framework

- Case No. 8908 began December 2001, settlement process chaired by Commission Staff begins
- February 2002 Staff Report on SOS issues
- May 2002 Commission addressed threshold statutory and policy issues raised by parties
- November 2002 policy settlement negotiated by all parties, supported by 20 parties (utilities, Staff, customers, wholesale and retail suppliers) and opposed by one party filed
- April 2003 Commission approves settlement without change
- July 2003 Phase II implementation settlement supported by 16 parties and opposed by one party filed
- September 2003 Commission approves Phase II settlement without change
- Starting Spring 2004, Monitoring and Procurement Improvement Workgroups chaired by Staff will monitor SOS procurement and administration and recommend future procurement improvements without changing basic framework

More Details

- Full details are on the Maryland PSC website under Case No. 8908: http://www.psc.state.md.us/psc/ (then select 8908 under "Case Search" from bar at top of homepage)
- In particular the following documents:
  – Starting point and statutory guidance: items 1, 25 and 59
  – Phase I Policy Settlement: items 119, 124-137 and 184
  – Phase II Implementation Settlement: items 194, 205-216 and 269