

**PUBLIC SERVICE COMMISSION
OF MARYLAND**

**REPORT TO THE GOVERNOR AND THE MARYLAND GENERAL ASSEMBLY ON
THE STATUS OF STANDARD OFFER SERVICE, THE DEVELOPMENT OF
COMPETITION, AND THE TRANSITION OF STANDARD OFFER SERVICE TO A
DEFAULT SERVICE**

January 8, 2014

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Introduction

Pursuant to PUA § 7-510(c)(3)(iii)1., the Commission submits this report to the Governor and General Assembly on the status of Standard Offer Service (“SOS”), Maryland’s Competitive Retail Electric Market and the transition of SOS to a default service.¹

The Status of Standard Offer Service

Standard Offer Service (“SOS”) is electricity supply service sold by electric utility companies to a customer who does not choose a competitive supplier. The statute requires that SOS should be “designed to obtain the best price for residential and small commercial customers in light of prevailing market conditions at the time of the procurement and the need to protect these customers against excessive price increases.”²

The investor-owned electric companies provide SOS by purchasing wholesale power contracts with two-year terms twice a year, for residential and small commercial service of two-year terms, through sealed bid procurements. These procurements take place in the Spring and Fall for service starting the following Fall and Summer; each procurement covers roughly 25% of the total SOS load. Consequently, the SOS price for residential and small commercial customers at any one time reflects an average of market conditions on four bid days.

SOS for mid-sized non-residential customers is not intended to stabilize prices over an extended period of time. Mid-sized non-residential SOS is procured through sealed bids for three-month contracts procured four times a year. The price of the service at any one time reflects market conditions on the most recent bid day.

SOS for the Southern Maryland Electric Cooperative, (“SMECO”) is procured by the cooperative through an actively managed portfolio approach. Choptank provides SOS through procurement of full-requirements wholesale service through the Old Dominion Electric Cooperative.

¹ In 2008, the Commission provided the required information in the annual report on Cases 9056 and 9064. 99 MD PSC, pages 163, 220, 231.

² PUA § 7-510(c)(4)(ii).

The current version of the SOS bidding process was established in Cases 9064 and 9056, in 2006 and 2007, and has remained essentially unchanged, with the exception of small adjustments from each year's Procurement Improvement Process. SOS bids have been successful, as a whole, with few instances of a bid that was rejected as uncompetitive due to market conditions on the bid day.³ For the vast majority of bids, the Commission's consultants have reported competitive bidding conditions with sufficient number of bidders.

The Commission is currently reviewing certain administrative charges associated with SOS.⁴ SOS is procured by the utilities and sold to customers without additional markup. However, the utilities levy an administrative charge and a true-up of supplier invoices, both on a per kWh basis. The Commission, through these cases, is reviewing the appropriateness of the components of the SOS Administrative Charges, including uncollected bill costs, cash working capital, transaction costs and a utility margin.

The Development of Retail Electric Competition in Maryland

The Electric Customer Choice and Competition Act of 1999 ("Electric Choice Act") established the legal framework for the restructuring and revised regulation of the electric industry in Maryland. The Electric Choice Act altered the Commission's role relative to electricity generation and provided that retail electric choice would be available to all customers. Beginning on July 1, 2000, all retail electric customers of investor-owned utilities ("IOUs") in the State were given the opportunity to choose their electricity supplier. Since July 1, 2003, customers of Maryland's electric cooperatives have had the right to choose suppliers under a separate schedule adopted by the Commission. Customers of Maryland's municipal electric utilities will be allowed to choose suppliers on a timetable established in part by the municipal utilities.

³ See Order No. 82279, October 24, 2008.

⁴ Case 9226 *In the Matter of the Review of Delmarva Power & Light Company Standard Offer Service Administrative Charge* and Case 9232 *In the Matter of the Review of the Potomac Electric Power Company Standard Offer Service Administrative Charge*.

The Electric Choice Act deregulated the pricing of electric generation and opened retail markets to competitive suppliers. Opening retail markets for competition has resulted in more competitive suppliers doing business in Maryland. The number of active suppliers for 2008 vs. 2013 is shown in the tables below.⁵

Number of Electric Suppliers Serving Enrolled Customers Dec. 2008				
Distribution Utility	Residential	Small C & I	Mid C & I	Large C & I
Allegheny Power	5	14	17	13
Baltimore Gas and Electric	15	22	23	19
Delmarva Power & Light	10	18	20	13
Potomac Electric Power	9	18	21	18

Number of Electric Suppliers Serving Enrolled Customers Nov. 2013				
Distribution Utility	Residential	Small C & I	Mid C & I	Large C & I
Allegheny Power	22	25	28	13
Baltimore Gas and Electric	53	54	50	23
Delmarva Power & Light	34	41	37	20
Potomac Electric Power	42	43	44	21

⁵ http://webapp.psc.state.md.us/intranet/ElectricInfo/enrollmentrpt_new.cfm - Dec. 2008, and Nov. 2013 Reports

Customer Participation in Electric Choice

An examination of the number of customers using a competitive supplier indicates that the transition from utility-supplied generation service to electric competition in Maryland shows that a smaller percentage of residential customers have switched to retail suppliers than non-residential customers. As of November 2013, 26% of residential customers, 37% of small commercial customers, 60% of mid-sized commercial and industrial customers and 89% of large commercial and industrial customers were served by retail electricity suppliers. In terms of total electricity supply, over half of IOU load (52%) was served by retail electricity suppliers as of November, 2013.

From 2008 to 2013, residential switching increased as the number of Residential Choice customers increased by over 400% statewide. Over the last five years, enrollment has gradually increased until almost half a million Maryland households have chosen a competitive supplier.

The implementation of utility purchase of retail supplier receivables (“POR”) in 2010 for suppliers that use utility billing probably also played a significant role in the increase in the number of residential customers served by retail electricity suppliers. Prior to POR, suppliers were exposed to the risk of non-payment from customers. Under the current program, suppliers are paid by utilities at a discount related to the cost of uncollected revenue and programming costs. In exchange, the supplier is paid the discounted amount by the utility five days after their customer’s due date. The POR discount rate is typically on the order of 1-2%.

Between December 2008 and November 2013, the total number of customers statewide served by electricity suppliers increased from 112,000 to 629,000 customers.⁶ During the same time, the number of residential customers served by electricity suppliers in BGE’s service territory increased from 27,000 to 337,000.⁷ These increased numbers reflect a large increase in the number of accounts that benefit from retail energy savings. The amount of total retail choice peak load obligation also increased, but with a smaller proportion, as much of the industrial and large commercial load had switched during the previous years of competition. The large commercial electricity market has stabilized at about 90% of customers and load. The change in

⁶ An increase of 462%.

⁷ 1149% Increase.

industrial customer retail participation since 2008 has been small relative to the mass markets because the Commercial and Industrial (“C&I”) market already had very few customers remaining on SOS.

Residential participation was 2.8% of customers in 2008. Switching increased to 26% in 2013. Large C&I customers chose retail service by 87% in 2008 and 89% in 2013.

Number of Customers Served by Competitive Electricity Suppliers Utilities Dec. 2008						
2008	Residential	Small C&I	Mid C&I	Large C&I	All C&I	Total
BGE	26,944	15,791	12,610	605	29,006	55,950
DPL	1,039	3,375	2,072	85	5,532	6,571
PE	40	3,671	2,540	106	6,317	6,357
Pepco	27,001	7,852	7,636	491	15,979	42,980
Total	55,024	30,689	24,858	1,287	56,834	111,858

Number of Customers Served by Competitive Electricity Suppliers Utilities Nov. 2013						
2013	Residential	Small C&I	Mid C&I	Large C&I	All C&I	Total
BGE	336,684	39,622	17,477	609	57,708	394,392
DPL	30,938	9,672	3,033	79	12,784	43,722
PE	32,709	7,807	3,368	100	11,275	43,984
Pepco	126,920	12,229	9,731	469	22,429	149,349
Total	524,971	69,151	33,544	1,252	103,947	628,918

The total statewide retail peak load obligation (i.e. the sum of the total peak load from retail customers) increased from 2008-2013, but with a smaller proportion compared to total accounts switching. As of November 2013, 52% of the total peak load in Maryland's four largest utilities is provided by retail choice suppliers. As noted previously, much of the industrial and large commercial load had switched during the previous years of competition. The large commercial electricity market has stabilized at about 90% of customers and load. Small commercial and residential markets have made significant gains percent of peak load since 2008, moving from 3% to 27% and 20% to 40% respectively.

Percentage of Peak Load Obligation Served by Competitive Electricity Suppliers Utilities						
Dec. 2008						
2008	Residential	Small C&I	Mid C&I	Large C&I	All C&I	Total
BGE	2.6%	19.0%	63.9%	94.1%	71.9%	38.3%
DPL	0.8%	23.1%	61.7%	94.5%	64.5%	31.0%
PE	0.0%	19.0%	56.8%	83.9%	63.9%	29.6%
Pepco	6.7%	24.8%	64.8%	88.5%	72.5%	42.5%
Total	3.2%	20.7%	63.3%	91.5%	70.8%	37.9%

Percentage of Peak Load Obligation Served by Competitive Electricity Suppliers Utilities						
Nov. 2013						
2013	Residential	Small C&I	Mid C&I	Large C&I	All C&I	Total
BGE	31.6%	40.1%	73.7%	95.0%	79.0%	54.5%
DPL	20.2%	45.2%	71.7%	96.5%	73.5%	44.0%
PE	15.4%	27.6%	66.6%	89.1%	70.0%	41.3%
Pepco	27.2%	45.7%	72.7%	91.1%	79.0%	54.7%
Total	27.6%	40.1%	72.5%	93.3%	77.7%	52.2%

Ongoing Issues

The Commission used a series of collaborative working groups as well as litigated proceedings to develop the market structure of Electric Choice. Changes to regulations and tariffs relating to Electric Choice have been implemented in a similar way using technical working groups and the Commission's administrative and rulemaking process to address ongoing issues. As a means of informing consumers about their options for Electric Choice, the Commission has engaged in customer education through ongoing development of a Customer Choice Website for Maryland.

The development of the retail markets has not been without difficulties. Complaints against retail suppliers have risen to the level of litigated proceedings, in some cases resulting in fines against suppliers.⁸ The Commission reviews consumer complaints at regular intervals, and takes action when appropriate. The Commission's process evaluates the number of complaints, both in total and as a proportion of each supplier's number of enrolled accounts, thus identifying prolonged periods of elevated complaint levels or spikes in the number of complaints.

The Transition of Standard Offer Service to a Default Service

Electric companies maintain an obligation to provide SOS to residential and small commercial customers.⁹ The Commission directed electric companies to provide SOS to mid-sized commercial customers in Case 9056.¹⁰ SOS is the default service provided to new customers upon new service activation. SOS is the service provided when a customer chooses not to select an alternative retail supplier, or when a retail supplier discontinues general operations or service to a specific customer. There are no current proceedings before this Commission that would significantly alter this arrangement or explore an alternative to SOS as the default service.

⁸ Case 9324 - *In the Matter of the Investigation Into the Marketing Practices Of Starion Energy Pa, Inc. and Case 9255 In the Matter of the Complaint of the Staff of the Public Service Commission Against Viridian Energy Pa, LLC.*

⁹ PUA § 7-510(c)(3)(ii)(2)

¹⁰ *In The Matter of the Commission's Investigation Into Default Service for Type II Standard Offer Service Customers*, Order No. 81019, August 28th, 2006.