

**BEFORE  
THE PUBLIC SERVICE COMMISSION  
OF  
THE STATE OF MARYLAND**

**IN THE MATTER OF THE  
COMMISSION'S INQUIRY INTO  
THE COMPETITIVE SELECTION  
OF ELECTRICITY SUPPLIER /  
STANDARD OFFER SERVICE**

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**CASE NO. 8908**

**THE COMMISSION STAFF'S  
REPORT/OBSERVATIONS  
ON THE  
STANDARD OFFER SERVICE  
BIDDING PROCESS AND RESULTS**

**R. Scott Everngam, CFA  
Assistant Director  
IRP Division**

**D. Douglas DeWitt  
Director  
RRE Division**

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## **SUMMARY RESULTS OF THE STANDARD OFFER SERVICE BID PROCESS**

This is a summary of the recently completed Standard Offer Service (“SOS”) Bids for all four major electric distribution companies in Maryland. This report has two sections: the summary results of the Request for Proposals (“RFP”) bid process and the bill impact of the new market-based prices.

A competitive wholesale procurement process was used to solicit offers for Full Requirements Service. In all, 8,259 megawatts (“MW”) were solicited for 2006-07, as follows: 344 MW by Allegheny Power (“AP”), 5,188 MW by Baltimore Gas & Electric (“BGE”), 684 MW by Delmarva Power & Light (“DP&L”), and 2,044 MW by Potomac Electric (“Pepco”). The contracts for electric supply by type of service were:

- Residential – 2,940.4 MW of 11 month to 1 year contracts;
- Residential – 1,231.3 MW of 23 month to 2 year contracts;
- Residential – 831.3 MW of 35 month contracts;
- Type I Non-Residential – 782.1 MW of 1 year contracts;
- Type I Non-Residential – 439.6 MW of 2 year contracts;
- Type II B Non-residential – 582.3 MW of 1 year contracts; and,
- Type II A Non-residential – 1,451.6 MW of 4 to 7 month contracts.

This year’s recently completed wholesale auction was the first annual SOS procurement for supply for BGE residential customers and all contracts will commence on July 1, 2006. Approximately one-half of the contracts were for 11 months, one-fourth for 23 months, and the balance for 35 months. For DP&L and Pepco residential customers, this was the

third annual SOS procurement. Approximately one-fourth of the portfolio is 35-month contracts, procured in the annual auctions held two years ago; the balance was solicited in this year's auction as a blend of new one-year and two-year contracts. The 2006-07 procurement was the first to split Type 2 SOS into separate products, per Order No. 80342 in Case No. 9037. The utilities are conducting the auctions for the new Type 2-A SOS in two phases. For example, BGE and Pepco have already solicited 4-month Type 2-A SOS for the June – September 2006 summer period; in June 2006, these utilities will procure 8-month non-summer Type 2-A SOS for the October 2006 – May 2007 timeframe.

Some of the key dates in the process leading up to the bidding were:

- **October 2005:** The utilities held a joint pre-bid conference in Baltimore; over twenty suppliers attended and/or showed interest in this process;
- **November – December 2005:** Commission's Technical Consultant met with distribution utilities to discuss its role, logistics and specific mechanics for the evaluation of bids and credit applications, and other issues. "Dry-runs" were also held of the bid-day evaluation process; and
- **December 2005 – February 2006:** Bids for each tranche; blocks offered are currently fully subscribed for all four utilities.

The summary results of the 2005-06 RFP bid process were as follows:<sup>1</sup>

1. The utilities conformed to their Bid Plans as required by Commission Orders and there were appropriate security measures on all bid days.

2. There were sixteen (16) eligible bidders in this process of which thirteen (13) suppliers actually submitted bids and ten (10) suppliers won some portion of the load offered this year. Starting in June 2006, twelve (12) different suppliers will be serving SOS customers.
3. The bid prices reflected general economic conditions including high and rising prices for the fuels used to produce electricity as well as increased congestion into parts of Maryland. The rising price of fuels reflects a worldwide increase in demand and tightening supply for energy resources, and unfortunately the effects of Hurricanes Katrina and Rita magnified the increase.
4. For purposes of comparison, the Discounted Average Term Prices (“DATP”) in dollars per megawatt-hour (\$/MWh) for electricity supply only were the following (does not include delivery and other applicable charges):

<b>Product</b>	<b>AP</b>	<b>BGE</b>	<b>DP&amp;L</b>	<b>Pepco</b>
Residential	NA	\$97.57	\$98.85	\$101.10
Type 1 SOS	\$82.17	\$95.61	\$100.25	\$102.43
Type 2 A SOS	\$86.03	\$115.88	\$97.92	\$127.95
Type 2 B SOS	NA	\$94.70	NA	\$100.30

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<sup>1</sup> Boston Pacific, the Commission’s Technical consultant in this process, also contributed to this report.

## BILL IMPACTS OF NEW MARKET BASED SOS PRICES

The following percentages compare estimated total average customer bills using currently effective Standard Offer Service (SOS) rates to estimated average total bills using the new SOS generation rates resulting from the latest competitive bid.

### I) RESIDENTIAL CUSTOMERS

#### A. Potomac Electric Power Company (Pepco)

- i) All Residential Customers - Including Time-of-Use (“TOU”) Rate Schedule RTM Customers
  - total annual bill increase 39%
  - average annual dollar increase \$468
  - SOS power supply increase 59%
- ii) Increases based on whether the customer does or does not have TOU rates and whether the customer does or does not heat only with electricity.

	Percent of all Pepco Residential Customers	Average current <u>annual</u> bill	% Increase in total <u>annual</u> bill	Dollar amount increase in <u>annual</u> bill	% increase in SOS power supply part of bill
Standard Rate Customers with Electric Heat	25%	\$1,413	40%	\$561	60%
Standard Rate Customers who do not have electric heat	63%	\$998	37%	\$368	58%
Time-of-Use Customers with Electric Heat	3%	\$2,486	43%	\$1,062	60%
Time-of-Use Customers who do not have electric heat	9%	\$1,729	40%	\$695	58%
All Residential Customers	100%	\$1,215	39%	\$468	59%

- iii) Although the annual bill percentage increases for Time-of-Use customers with electric heat are higher than for Standard SOS customers with electric heat, TOU customers would not necessarily save money if they switched to Standard SOS rates.

B. Delmarva Power & Light (DPL)

- i) All Residential SOS Customers
  - total annual bill increase 35%
  - average annual dollar increase \$464
  - SOS power supply increase 52%
- ii) Increases based on whether the customer heats only with electricity

	Percent of all DPL Residential Customers	Average current <u>annual</u> bill	% Increase in total <u>annual</u> bill	Dollar amount increase in <u>annual</u> bill	% increase in SOS power supply part of bill
Customers with Electric Heat	48%	\$1,512	36%	\$546	52%
Customers who do not have electric heat	52%	\$1,101	35%	\$380	52%
All Residential Customers	100%	\$1,315	35%	\$464	52%

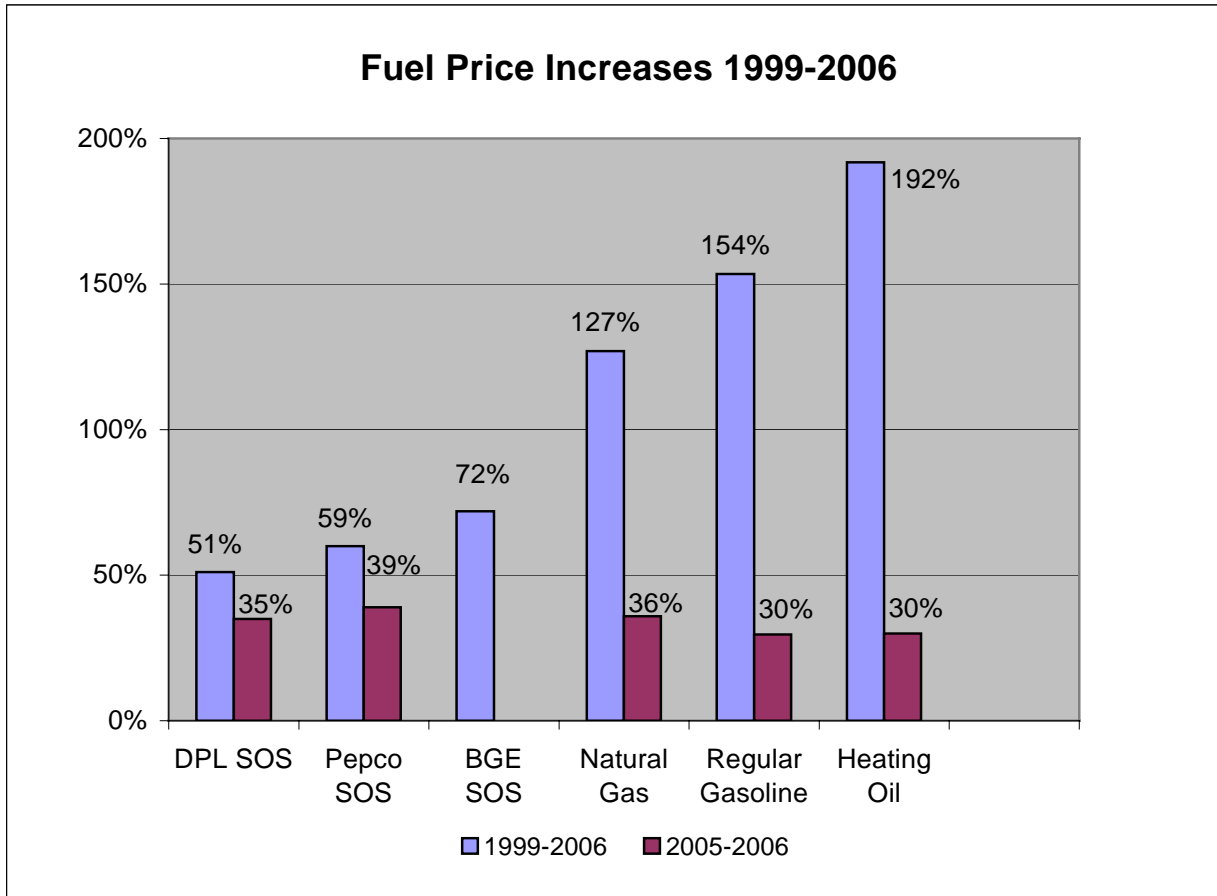
C. Baltimore Gas and Electric (BGE)

- i) All Residential Customers - Including Time-of-Use (“TOU”) Rate Schedule
  - total annual bill increase 72%
  - average annual dollar increase \$743
  - SOS power supply increase 132%
- ii) Increases based on whether the customer has TOU rates

	Percent of all BGE Residential Customers	Average current <u>annual</u> bill	% Increase in total <u>annual</u> bill	Dollar Amount Increase in <u>Annual</u> Bill	% Increase in SOS Power Supply
<b>Standard Rate Customers</b>	92%	\$995	71%	\$709	131%
<b>TOU Rate Customers</b>	8%	\$1,468	77%	\$1,138	145%
<b>Total Residential</b>	100%	\$1,033	72%	\$743	132%

## II. ENERGY PRICE COMPARISONS

### Fuel Price Increases



Source: Bureau of Labor Statistics

The chart shows the increases in SOS prices compared with price increases for other fuels. The lighter colored bars show the increases for 1999-2006, which encompasses the price “freeze” periods for DPL, Pepco, and BGE. The darker bars show the increases for one year, from 2005 to 2006. Although the SOS prices for DPL and Pepco jumped considerably from 2005 to 2006, the chart shows similar increases for natural gas, heating oil and gasoline for the same period. The 72% increase in BGE’s SOS prices from 1999 to 2006 is significantly lower than the overall increases for the other fuels, heating oil in particular, for the same time period.

- III. TYPE 1 SOS (Small Commercial Customers)
  - A. PEPCO
    - total bill increase 52%
    - SOS power supply increase 81%
  - B. DPL
    - total bill increase 40%
    - SOS power supply increase 61%
  - C. BGE
    - total bill increase 39%
    - SOS power supply increase 73%
  - D. Allegheny
    - total bill increase 35%
    - SOS power supply increase 57%
  
- IV. TYPE 2 SOS (Medium Sized Commercial Customers) – Because of the greater complexity of rates for these customers only total bill increase estimates are listed.
  - A. Pepco total bill increase 53%
  - B. DPL total bill increase 14%  
(Winter supply at 2005 contract prices)
  - C. BGE total bill increase 27%
  - D. Allegheny total bill increase 41%
  
- V) TYPE 3 SERVICE (Large Sized Commercial and Industrial Customers) – Because the usage characteristics of these customers vary widely and because Type 3 customers have an hourly spot-market based utility service option, a useful analysis of total bill impacts for these customers is not possible.