

**Independent Power Producers and
Power Purchase Agreements Workshop**
Bamako, Mali; July 28-30, 2004

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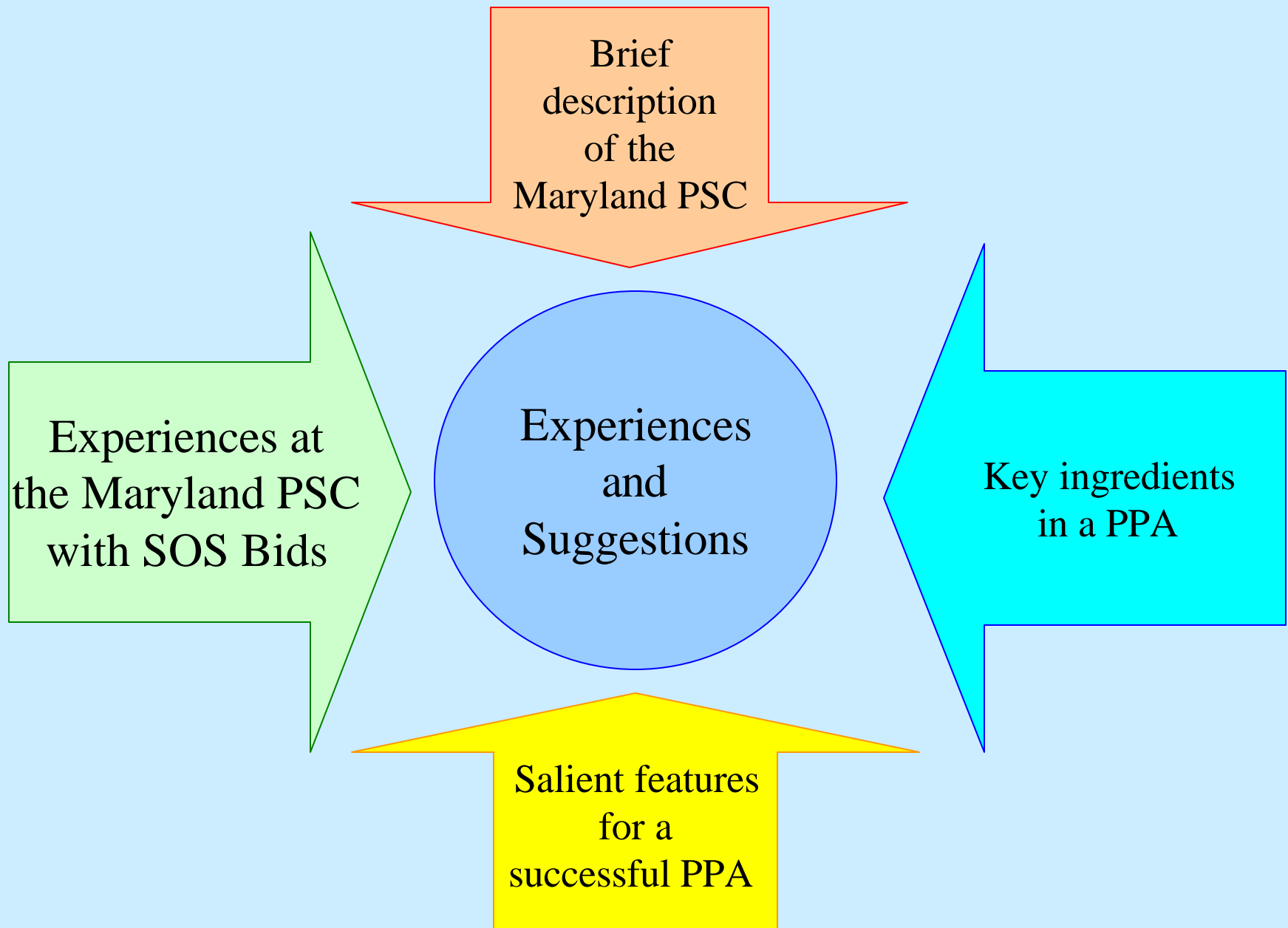
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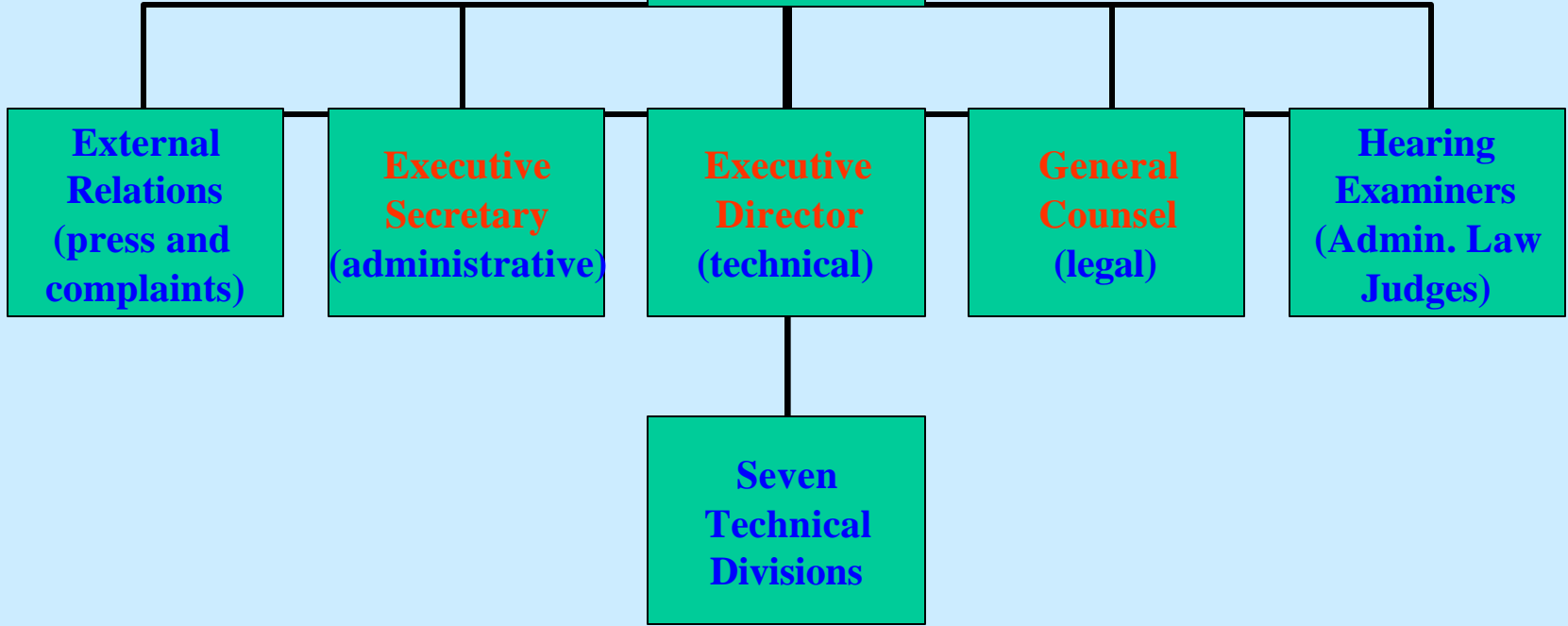
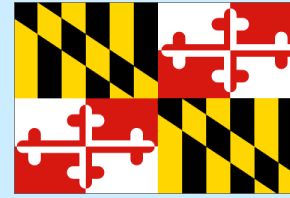
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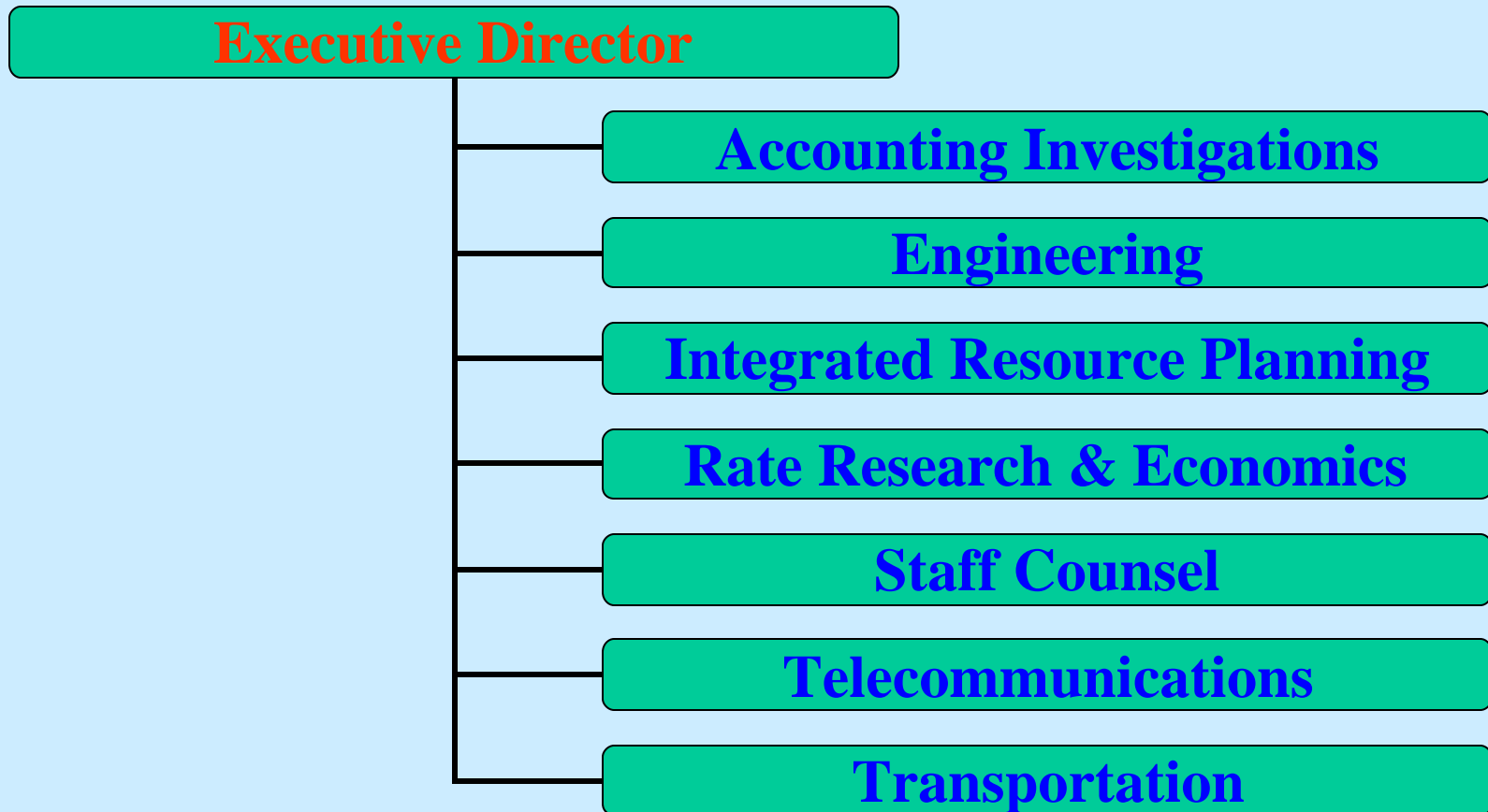
Maryland Public Service Commission



**Chairman &
Four
Commissioners**



Technical Divisions



Allegheny Power

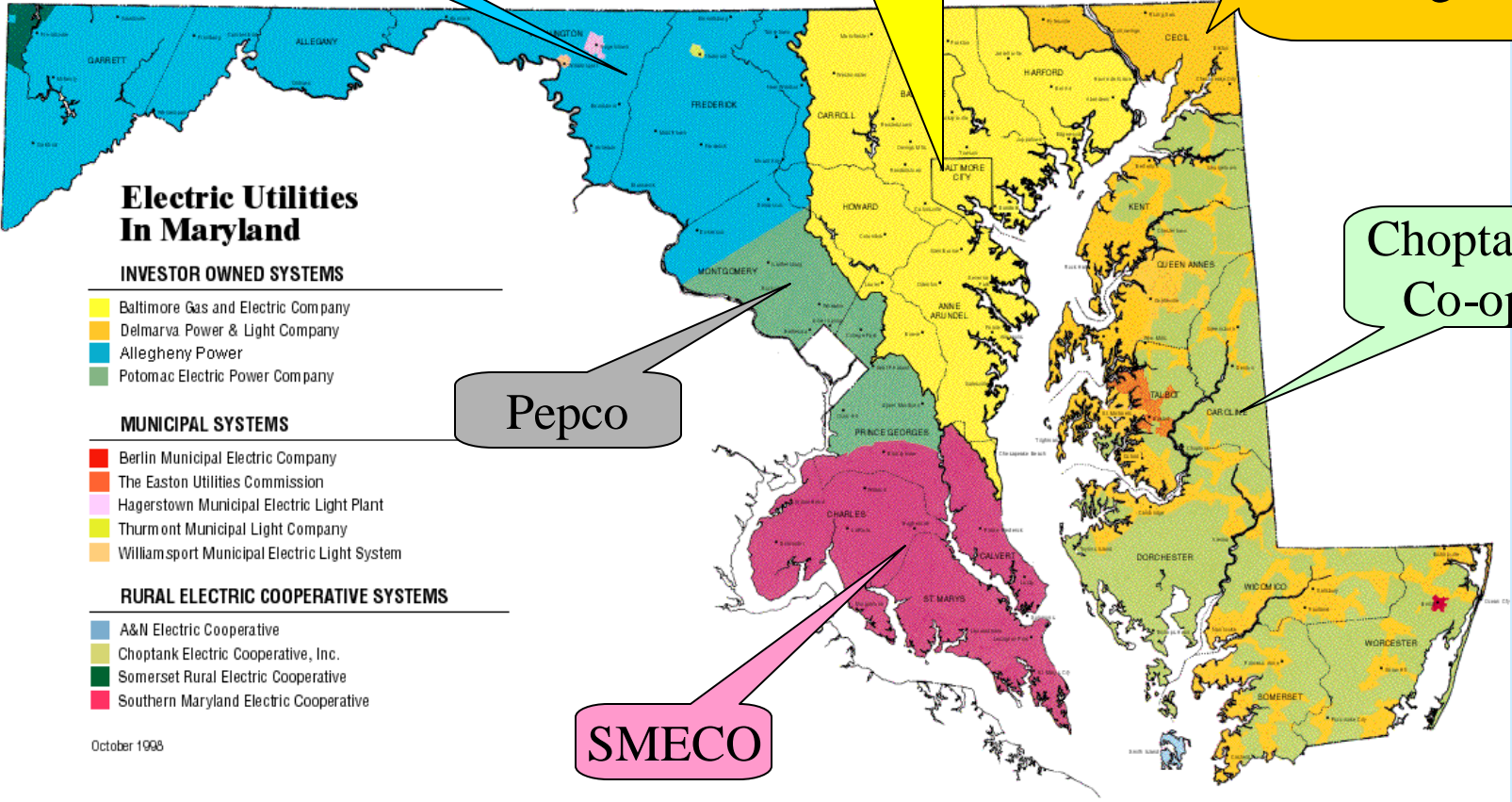
Baltimore Gas & Electric

Delmarva Power & Light

Choptank Co-op

Pepco

SMECO



Population in 2002 (millions)

- **United States = 288.4**

State -

- **Maryland = 5.5 (18th)**

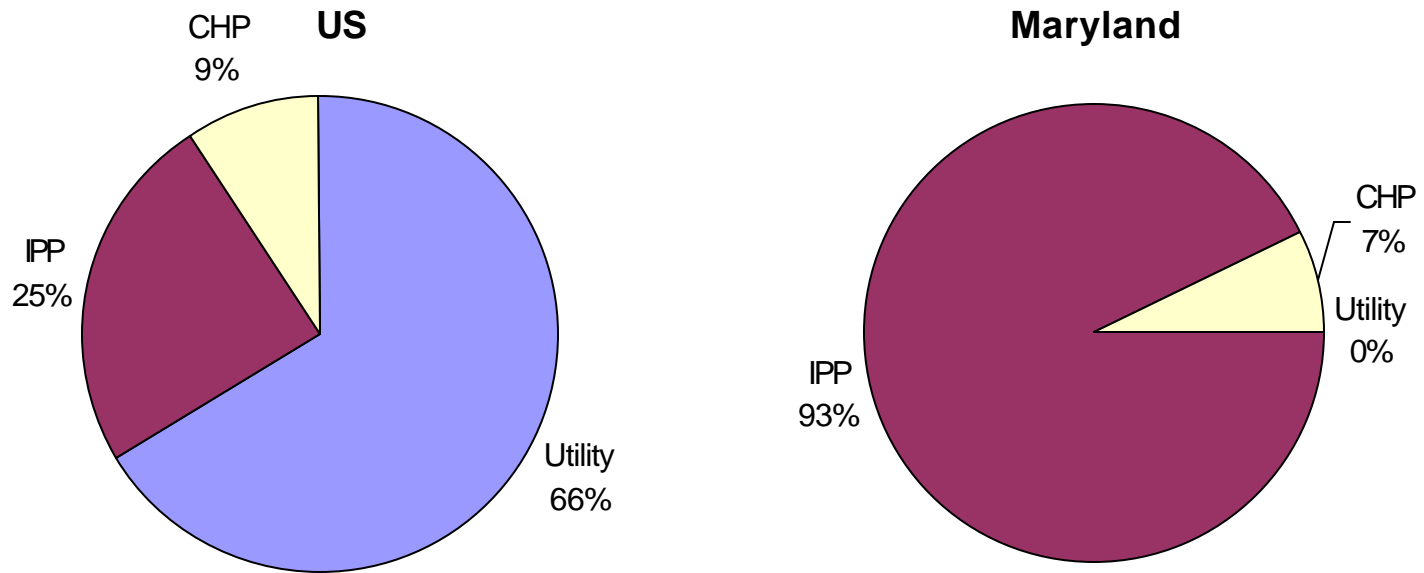
California=35.1 (1st); Texas=21.8 (2nd); New York=19.2 (3rd)

Metro area -

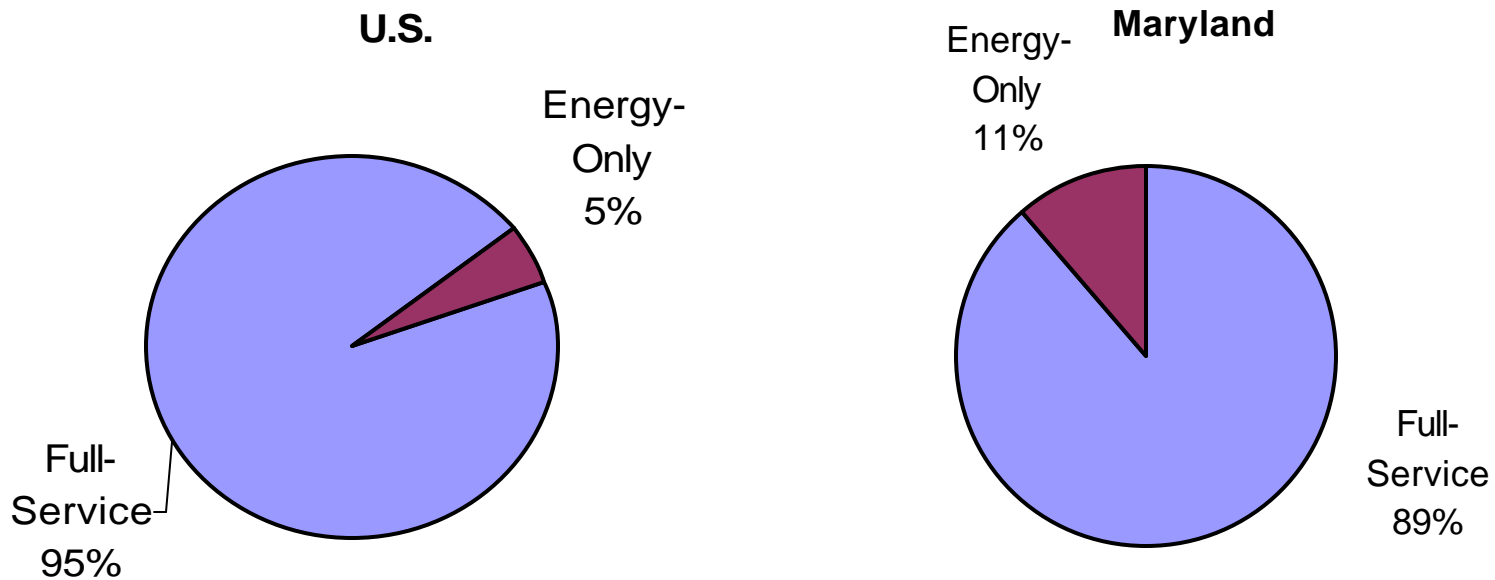
- **Baltimore = 2.6 (19th)**

NY City=18.6 (1st); LA=12.7 (2nd); Chicago=9.3 (3rd)

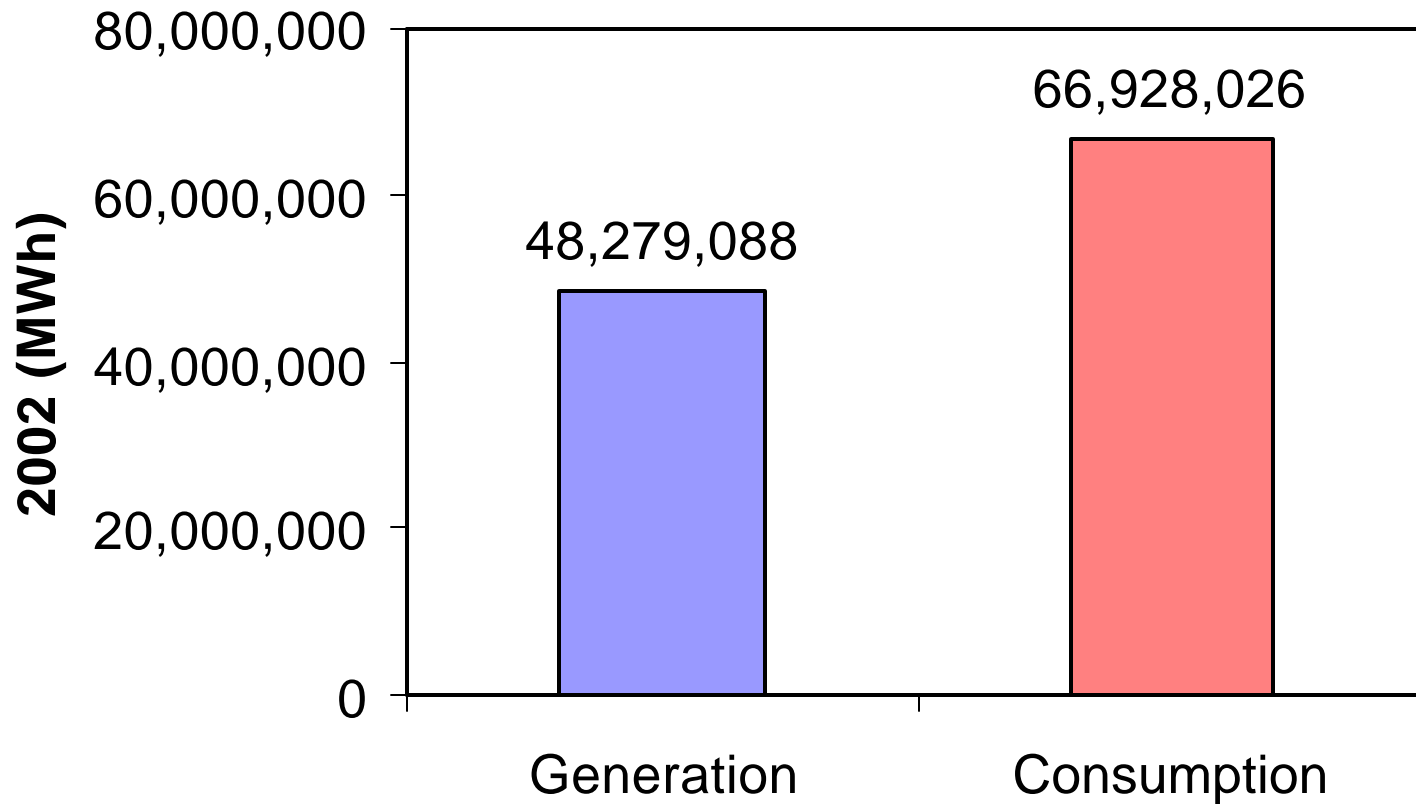
Electricity Generation by Type of Producer, 2002



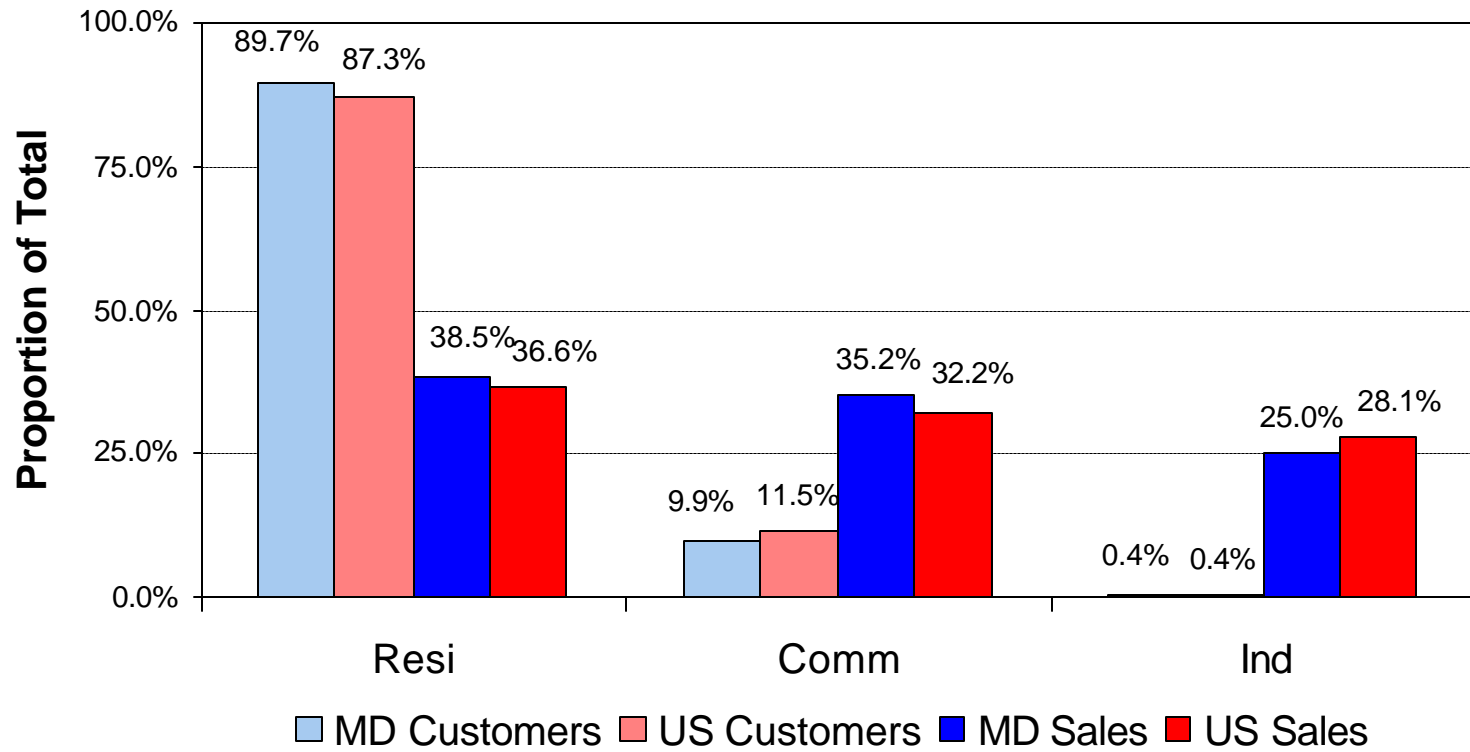
Electricity Sales by Type of Provider, 2002



Maryland Electricity Data, 2002



Customers-Sales Comparison, 2002



Maryland's Electric Customer Choice and Competition Act of 1999

- Restructured the electric utility industry in Maryland

Goals of the Act -

- Foster development of competition in Maryland's retail electric supply market by providing price stability through utility-supplied generation service option
- Promote reliability and protect customers
- Provide economic benefits to all customer classes
- Treat stakeholders fairly
- Avoid violation of federal and state regulations

Restructuring Settlements

- After passage of Act, the Commission approved restructuring settlements for each investor-owned utility and cooperative.
- The settlements set forth framework for retail competition in each service territory.

SOS Statutory Requirements §7-510 (c)

Commission must act promptly to:

- Determine competitiveness of electricity supply market in Maryland;
- If not competitive, provide for ongoing availability of SOS to ensure stable transition for residential and small commercial customers;
- Ensure reliable service for all customers.

Chronology of Events in CN8908

May 2002: Commission issued Order 77806 addressing threshold questions.

September 2002: Two days of hearings; Commission directed parties to achieve a settlement or alternatively it would resolve SOS issues by January 2003.

November 2002: Parties filed Settlement Agreement.

December 2002: three days of hearings on Settlement.

January 2003: Parties filed initial and reply briefs.

April 2003: Settlement Agreement approved by Commission (Order No. 78400).

Standard of Review for Analyzing Settlement Agreement

Key question: *Whether Settlement is in public interest and supported by substantial evidence on the record as a whole.*

Other factors include:

- Economic evidence;
- Desirability of avoiding costly and time-consuming rate proceedings;
- Whether settling parties represent abnormal and adverse interests of other settling parties; and,
- Reasonableness of effects of settlement upon particular customer classes.

Standard of Review for Analyzing Settlement Agreement

- Complying with the goals envisioned by Legislature when it enacted the 1999 Act.

Goals of Commission

- Desire to continue evolution of competition.
- Wish for suppliers to evolve in their line of business.
- Minimize costs to suppliers.

Policy Reviews

- Commission will docket a proceeding for a major policy review for each service type except Type III.
- This will occur during the second half of the second program year of each utility's service period and for each customer class (except Type III), when procurement and price results for the second year are known and there are some second year enrollment experience.
- Initiated by the Commission Staff.
- Allows Commission to analyze and make recommendations to determine whether and how SOS programs will be continued.

Model Bid Plans (MBP)

- Electric supply obtained using utility specific bid plans based on model bid plans.
- Use of competitive wholesale procurement process.
- Presumption is that process will use Requests for Proposals (RFPs) to solicit supply offers.
- Utilities will solicit offers for Full Requirements Service.
- Contracts for supply will be:
 - Type I (local dry cleaners & flower shops): 1 and 2 years.
 - Type II (large grocery stores): 1 year.
 - Type III (sugar factory & chicken farms): 1 year.
 - Residential SOS: 1, 2, and 3 years.
- Total supply load may be divided into load blocks (tranches) for supply diversity and reliability.

The Wholesale Bidding Process

- Electric supply for SOS obtained pursuant to competitive wholesale procurement process.
- MBP developed and submitted to Commission for approval; presumption process will use RFPs to solicit supply offers.
- Utilities solicit Full Requirements Service; includes, but not limited to provision of electric energy, energy losses, generation capacity, ancillary services, and other PJM and FERC-approved services and associated costs relative to utilities' SOS load obligation.

The Wholesale Bidding Process

- Each utility solicit offers for contracts for supply for the following terms:
 - Residential – 1, 2, and 3 years.
 - Type I – 1 and 2 years.
 - Type II and Type III – 1 year.
- Total load may be divided into load blocks to promote diversity of supply and reliable contract performance.
- Each load block will be a certain % of the total SOS load and each supplier will be obligated to supply that % of the load at all times.

The Wholesale Bidding Process

- Utilities select length of contract to meet percentage targets in accordance with MBP.
- Residential
 - 1 Year: offers must comprise at least 50% of the year's requirements
 - 2 Year: 25%
 - 3 Year: 25%
- Type I
 - 1 Year – 50% load
 - 2 Year – 30% load

The Wholesale Bidding Process

- Each utility submits specific forms of bid requests, evaluation plan, and standard form contracts -- known as Utility Bid Plans (UBP) -- to Commission for review of compliance with Commission-approved MBP.
- Each utility submits final bid results, bid awards and proposed contracts to Commission for review and determination of compliance with UBP.
- Commission has 48 hours to determine if contracts are in compliance with UBP; contracts are considered approved unless Commission orders otherwise.
- Winning bidders receive actual prices in their offers for each year of the term of their supply contract; winning bidders not able to revise prices or terms and conditions of their supply contracts

Retail Electricity Prices

- Consist of seasonally-differentiated, and if applicable, time-of-use differentiated load weighted average of the supply contracts for each year
- FERC-approved transmission charges and any other PJM charges and SOS related costs
- Administrative Charge
 - * Utility return component not reflected in a utility's distribution rates, incremental costs component, uncollectibles, etc.
- Applicable taxes

Other Issues

- Not precedent for any future case
- Settling parties stipulate not to seek judicial review of a Commission order approving Settlement without modification
- Provisions are not severable
- Nothing abrogates any existing or future contract or competitive retail electric supply

Commission's Technical Consultant

- To assist the Commission and its Staff with the oversight of the competitive procurement, a Technical Consultant was hired by the Commission and paid for by the four utilities.
- A competitive procurement was issued and, in early October 2003, a Technical Consultant team was hired.
- The Technical Consultant will monitor compliance in all phases of the RFP:
 - (a) advertising the RFP and establishing a web site for communication with potential bidders;
 - (b) conducting a pre-bid conference and following up on issues raised in that conference;
 - (c) pre-qualifying bidders; and,
 - (d) conducting the RFP (choosing winning bidders, applying the PAT, and executing the FSAs).

Key Activities

October 2003

- The utilities (a) jointly distributed a letter to all PJM participants plus a number of other potential bidders at the request of the MPSC, (b) issued a press release to 28 industry publications, and (c) launched their websites.
- The utilities held a joint pre-bid meeting in Baltimore; over 30 interested entities attended.
- Technical Consultant met with one Commissioner and senior Staff members and made a presentation that outlined its understanding of the RFP process, the important technical issues that needed further evaluation, and a list of goals and next steps.

Key Activities

November 2003

- Technical Consultant met with distribution utilities to discuss (i) its role, (ii) utility's accomplishments to-date, (iii) logistics and specific mechanics for the evaluation of bids and credit applications (iv) implementation of affiliated codes of conduct, (v) other issues and questions, and (vi) next steps.
- Technical Consultant met with the OPC to discuss the Residential Price Anomaly Threshold (PAT).

December 2003

- Technical Consultant and EDCs conducted dry runs of the bid-day evaluation process. The dry runs simulation were successful and provided insights that helped the actual bid day run more smoothly.

January 16, 2004

- All potential bidders submit the FERC, PJM, and financial requirements as required in the RFP in order to receive eligibility approval to participate in the bidding process.

Key Activities

- ***February 9, 2004***: Bids for 1st Tranche;
Commission action February 13.
- ***February 23, 2004***: Bids for 2nd Tranche;
Commission action February 27.
- ***March 8, 2004***: Bids for 3rd Tranche
Commission action March 12.
- ***March 22, 2004***: Bids for 4th Tranche
Commission action March 26.
- EDCs post actual “price-to-compare” end of April
- Increased applications for retail electric suppliers.

Bid Week Activities

- **Monday** - Bids faxed to EDCs by 17:00PM with Commission monitors in sealed bid room and analyzed late night.
- **Tuesday** - Winning bidders notified; preliminary documents signed.
- **Wednesday** - EDCs file winning bids by 17:00PM to the Commission for review.
- **Thursday** - Commission meets with Technical Consultant and select senior Staff for review.
- **Friday** - If Commission finds anomalies in bids, then rejects; otherwise, no action and bids accepted by EDCs.

Wholesale contract is between EDC and supplier!

Key Results

- The utilities conformed to their Bid Plans as required by Commission Orders and there were appropriate security measures on all bid days.
- Of the 25 bidders in this process, 14 won some portion of the load.
- There was evidence of robust competition in terms of the number of bidders as well as the number of bids received.
- The bid prices reflected general economic conditions.
- On average, the number of megawatts (MW) bidders offered was nearly five times greater than the number of MWs awarded. This also demonstrates robust competition in the bidding process.
- Another indication of robust competition is the fact that there was a wide range of bid prices.

Key Results

For purposes of comparison, the discounted weighted average wholesale bid prices for electricity supply only were (does not include delivery and other applicable charges):

EDC=	“A”	“B”	“C”	“D”
(\$/MWh and rounded)				
Residential	NA	NA	50	52
Small Commercial	49	50	50	54

Did the bids reflect the electricity market?

- Increase in Consumer Price Index for all good and services since January 2000 is 9.7%.
- Increase in Consumer Price Index for all household fuels and utilities (excluding vehicle fuels such as gasoline) since January 2000 is 20.2%.
- Increase in Consumer Price Index for all household natural gas usage since January 2000 is 50.4%.
- Based on these comparisons, the bids received were appropriate relative to economic conditions.

More more information, log on to MD-PSC's Web site at

<http://www.psc.state.md.us/psc/home.htm>