

Summary of Town of Chevy Chase Climate & Environment Committee January 4, 2014 Town Hall Forum on Energy Suppliers and Options

Sixty of us met January 4th to hear background to the opportunity we have to choose suppliers of our energy, the options we have, and the issues we need to look out for. The presentation was given by Paula Carmody from the Office of People's Counsel for the State of Maryland, with some background information provided by town resident Barney Rush. Most of the discussion focused on electricity, but many of the points are relevant to gas suppliers as well. Following is a summary of key points that were presented.

Electricity Market Restructuring

Electricity is no longer provided by a single utility, owning generation and the wires which carry the electricity to our homes. Instead, the different functions have been broken up into separate businesses:

- **Wires:** The wires that bring electricity to our homes in the Town are still owned by PEPCO, and the rates for the distribution system are set by the Public Service Commission.
- **Generation:** The power plants have been sold to companies which make a business of owning and operating power plants. They sell their electricity into a unified wholesale market, called "PJM," which covers most of the mid-Atlantic states and some of the mid-West.
- **Reliability:** The functions of ensuring the reliability of the grid, running the wholesale market, and providing the instructions to the power plants as to when each is to be turned on and off, are the responsibility of a non-profit organization called the Independent System Operator. The ISO matches the supply to the demand, minute by minute.
- **Selling Electricity:** Companies can enter the business of purchasing power in the wholesale market, and selling it to retail customers like ourselves. These companies are called "suppliers"

The overall goal of this restructuring is to bring the benefits of competition to power generation, where competition can exist, while maintaining regulatory control over the wires system which remains a natural monopoly. (No one would wish there to be competing sets of wires along the street!)

Your Utility Bill

The presentation of your utility bill is being modified to provide you with additional, more easily understood information about energy use by month and by day, and to permit comparison to usage in the past.

It also reflects the restructuring of the industry described above, and shows charges broken into two main categories: Delivery and Supply.

- **Delivery:** This part of the bill covers the cost of the low voltage wires in our area, including the wire right to your home. There are two components to this distribution charge: one is a fixed “Customer Charge,” which does not vary with usage. The other, a larger amount, is labeled an “Energy Charge,” but in fact, this is really the component for distribution which varies with usage. Delivery also includes taxes, most importantly the Montgomery County Energy Tax. You will probably note that the total delivery charges are in the range of 35 – 45% of your entire bill.
- **Supply:** This is the charge for the generation of your electricity. It also includes the cost of the high voltage lines which interconnect regions and are essential both to bringing power from distant power plants and for system reliability. Even though you may be purchasing power from a supplier which is not PEPCO, PEPCO will still provide the bill for the electricity supply in most instances, and effectively acts as an agent for the supplier: what you pay PEPCO for generation will be passed to your supplier.

Electricity Suppliers

Suppliers are NOT responsible for the physical delivery of the power. They act as financial intermediaries which seek to build a large base of customers and are willing to take the financial risk of offering contracts for a year or longer, and often at fixed prices, even though the day to day price of electricity in the wholesale market can vary substantially, depending upon weather and other events.

Some of the suppliers are substantial companies. And indeed, the largest supplier in our region remains PEPCO, which is the default supplier for any customer who has not chosen a different company from which to buy electricity. PEPCO’s market share is still around 70%.

However, some of the suppliers are small companies with few employees and without a long track record in the business of electricity marketing and risk management.

No supplier can be in business without first obtaining a license from the State's Public Service Commission ("PSC"), which sets out minimum standards of technical competence and financial strength to match the obligations they will undertake.

The PSC has given a license to approximately 140 different companies. Of these, 30 or so are currently active in the PEPCO service territory offering contracts.

You don’t have to choose a new supplier if you don’t wish to. If you don’t do anything, Pepco will remain your default electricity supplier at rates set by the PSC. Likewise, if you end a contract with a supplier and you don't have a new supplier selected, PEPCO will again become your supplier by default and electricity delivery to your home will continue uninterrupted.

Supply Options

Overall, suppliers compete with the following features:

- **Price:** Many of us will look to this feature first, but it's useful to understand that there is a limit to the plausible differences among the suppliers, especially if the other features mentioned below are kept constant. A difference of 1 cent/kWh would be very substantial, and often the difference is half a cent/kWh or less. To put this in perspective: If an average home uses 800 kWh of electricity per month over the course of a year, a 1 cent/kWh difference in price equals just under \$100 per year.
- **Length of contract for which a fixed price will stay in place:** Some contracts can vary month to month, while others stay in place for 12 or up to 24 months. Variable contracts may be cheaper for a given month, but the customer needs to be very mindful of the risks of price increases during months of heavy electricity consumption, such as the summer air conditioning season.
- **Percentage of a supplier's sourcing of power which comes from renewables:** The State of Maryland is requiring all suppliers to gradually ramp up the percent of renewable power that they purchase and provide. This requirement is 10% for 2014, and will be 20% by the year 2020. But many suppliers offer options to provide a mix which is more than 20%. To be clear: the electrons that arrive at our houses obey the laws of physics, and come from nearby sources of power, which are mostly conventional sources, such as coal, gas and nuclear. When a supplier states that 50% of the supply will come from renewable sources, this means it will purchase an amount of power from renewable sources somewhere in the PJM service area which equals 50% of the kWh's used by your home. Typically, the higher the percentage of renewable power in the resource mix, the more expensive the contract – but not necessarily much more expensive. There are supply options with 50 – 100% wind power which are only around 1 cent/kWh more expensive than those which rely primarily on conventional sources.

Issues to watch out for

For consumers, there are benefits to the restructured system, and the fact that we have choices means we can shop for the plan that best matches our needs and objectives. However, caution is also required:

- No deal with a supplier is valid unless there is a valid executed written contract. So even if you've agreed to an offer with a supplier over the phone, the deal isn't done until they have sent you a written contract that you've signed and returned.
- Beware of cancellation fees: Most contracts will state that if the contract is terminated early, a cancellation fee applies. This can often be \$150 or more – and so can cost a customer more than could be saved by switching to some new supplier for the remaining months of an existing contract.

- Your contract may include an automatic renewal provision, but the supplier is obligated to provide you 45 days' notice before the end of your contract, and there will not be any cancellation fee if you switch during the remaining 45 days of your contract.
- Beware of variable priced contracts: it's often very difficult to understand the formula the supplier uses to modify the pricing month to month, and prices have been known to increase sharply. Also beware of contracts that promise low prices for just the first few months, without clarity as to what the price will rise to after the "teaser" period.
- There have been some instances of pushy or even fraudulent sales activities door to door or by phone, so remain careful even if they say they "are from the utility."

More Information

The Office of People's Counsel will not (and cannot) offer comments on which suppliers are best, but the Office does post a summary of the various plans offered by different suppliers, with the most pertinent information about each. The listings are updated each month.

For electricity, the summary can be found at this [first link](#).

For natural gas, the summary can be found at this [second link](#).

It is important to realize that these are only a guides, and not definitive. Any of us wishing to look at a particular supplier must review that supplier's website, and carefully compare its offers to others.

Note also that the summaries linked above were current at least as of December 2013. If the links do not take you to current summaries (see the date in top right corner of each chart), it may be necessary to find current information by scrolling down this OPC [webpage](#) discussing retail suppliers.