

BEFORE THE PUBLIC SERVICE COMMISSION OF MARYLAND

IN THE MATTER OF THE COMMISSION'S)
INVESTIGATION INTO DEFAULT SERVICE) CASE NO: 9056
FOR TYPE II STANDARD OFFER SERVICE)
CUSTOMERS)

IN THE MATTER OF THE COMPETITIVE)
SELECTION OF ELECTRICITY)
SUPPLIER/STANDARD OFFER OR) CASE NO: 9064
DEFAULT SERVICE FOR INVESTOR OWNED)
UTILITY SMALL COMMERCIAL)
CUSTOMERS AND FOR THE POTOMAC)
EDISON COMPANY D/B/A ALLEGHENY)
POWER'S, BALTIMORE GAS & ELECTRIC'S,)
DELMARVA POWER AND LIGHT COMPANY'S)
AND POTOMAC ELECTRICAL POWER)
COMPANY'S RESIDENTIAL CUSTOMERS.)

DIRECT TESTIMONY

OF
CRAIG R. ROACH, Ph.D.
AND
FRANK MOSSBURG
BOSTON PACIFIC COMPANY, INC.

ON BEHALF OF THE STAFF OF THE
PUBLIC SERVICE COMMISSION OF MARYLAND

JANUARY 13, 2011

1

2 Q. Please state your names, business positions and business address.

3 A. Our names are Craig Roach and Frank Mossburg. We are, respectively, the
4 President and Managing Director at Boston Pacific Company, Inc. Boston Pacific
5 is the Monitoring Technical Consultant for this, the 2011 Request for Proposals
6 (RFP) by the four Maryland utilities. Boston Pacific is located at 1100 New York
7 Avenue NW, Suite 490 East, Washington, DC 20005.

8

9 Q. Please briefly summarize your qualifications as monitoring consultants for full
10 requirements RFPs.

11 A. We have extensive hands-on experience monitoring many of the major full
12 requirements solicitations in the country, including our engagements for (a) New
13 Jersey's 2007 through 2011 Basic Generation Service (BGS) Auctions, (b) the
14 2005 through 2011 Standard Offer Service (SOS) RFPs for the District of
15 Columbia, (c) Delaware's 2006 through 2009 SOS RFPs, (d) Maryland's SOS
16 RFPs in 2004, 2005, 2006, and 2010 for all four utilities, (e) Allegheny Power's
17 2009 RFP for full requirements supply in Pennsylvania, (f) the 2006 Illinois
18 Auction and the 2008 through 2010 Illinois RFPs and (g) FirstEnergy's 2009 and
19 2010 Auctions for its Ohio load. In each of these cases we represented the State
20 Utility Commission.

21

22 Q. What is the purpose of your testimony?

1 A. The purpose of our testimony is to provide a recommendation to the Maryland
2 Public Service Commission (the Commission) as to whether to accept the results
3 of this second bid day for the Maryland Utilities' 2011 Request for Proposals
4 (RFP) for Standard Offer Service.

5
6 Q. What is your recommendation?

7 A. We recommend that the Commission accept the results of this most recent bid
8 day. Our recommendation is based on the following four points.

9 1. The winning prices were consistent with broader market conditions. No
10 winning bids were rejected due to implementation of the Price Anomaly
11 Threshold.

12 2. The RFP was sufficiently competitive. Eight bidders participated in at
13 least one of the product offerings and six bidders won some share of
14 supply. Ultimately, the entire supply of each product was fully
15 subscribed.

16 3. The RFP was open, fair and transparent. All bidders, including utility
17 affiliates signed the same contract and all bids were judged solely on the
18 basis of price.

19 4. There were no violations of RFP rules or regulations. All bids were
20 properly evaluated in a manner laid out in the RFPs.

21

22 More broadly, we base this recommendation on our independent review and

23 ranking of all of the submitted bids, our assessment of current market conditions,

1 and our substantial experience as monitors for Standard Offer Service RFPs. We
2 also base this on our full participation in all phases of the RFP process. This
3 included: reviewing all RFP documents and data, monitoring the RFP websites,
4 reviewing all Q&A, attending the pre-bid conference, participating in pre-bid dry
5 runs to test bidding software, and discussions with Staff, the Maryland Office of
6 People's Counsel (OPC), and utilities regarding multiple issues.

7
8 Q. When did the solicitations take place and what products were solicited in this
9 second bid day?

10 A. This second bid day took place on Monday, January 10th. It solicited full
11 requirements service¹ for six different products among four utilities.

12 For Baltimore Gas and Electric (BGE)

- 13 1. 551.3 MW of Type II supply covering the March 1, 2011 to May 31, 2011
14 time frame

15 For Pepco

- 16 1. 266.4 MW of Type II supply covering the March 1, 2011 to May 31, 2011
17 time frame

18 For Allegheny Power

- 19 1. 46.1 MW of Residential supply covering the June 1, 2011 to May 31, 2012
20 time frame
21 2. 46.1 MW of Residential supply covering the June 1, 2011 to May 31, 2013
22 time frame

¹ Full requirements (also known as Standard Offer or Basic Generation Service) is electricity service for customers who choose not to use a third-party supplier. It is comprised of several components including: energy, capacity, ancillary services, and renewable portfolio obligations.

1 3. 135.9 MW of Type II supply covering the March 1, 2011 to May 31, 2011
2 time frame

3 For Delmarva Power and Light

4 1. 72.4 MW of Type II supply covering the March 1, 2011 to May 31, 2011
5 time frame.

6
7 The solicitation was a fixed-price pay as bid process. Supply was broken into
8 “blocks” of roughly 50 MW each, representing a percentage share of the total
9 product load. Bidders offered prices at which they would serve each product. All
10 bidders for a given product signed the same contract so selection was based solely
11 on which bidders offered the lowest price. Winners will be paid the prices that
12 they bid.

13
14 Q. Please explain the criteria used in making your recommendation.

15 A. In evaluating Standard Offer Service procurements we generally like to look for
16 four standards: (a) Are winning prices consistent with broader market conditions?
17 (b) Was there sufficient competition? (c) Was the process open, fair, and
18 transparent? and (d) Did the process adhere to procedures as laid out in the RFP
19 and Commission Orders?

20
21 Q. Please explain your findings with respect to fairness and transparency.

22 A. This RFP process was structurally open, fair, and transparent because it (a) had a
23 well defined product that could be offered by multiple parties, (b) used standard

1 contracts – so there was no discretion on non-price factors in choosing winners,
2 and (c) featured a straightforward, price-only bid evaluation. Additionally, the
3 utilities were prompt in answering questions from bidders and distributing
4 information to all bidders.

5
6 Q. Please describe your findings with respect to competitiveness.

7 A. We assessed several indicators of the competitiveness for the RFP. A full
8 detailing of the levels of participation for each of the six products can be found in
9 Exhibit One.

10
11 Q. What information did you review regarding competitiveness?

12 A. We first looked at the number of bidders. There were a total of eight bidders who
13 submitted bids for one or more of the six products available. This is the same
14 number of bidders that participated in the bid day this past June, but one less than
15 in January 2010.²

16
17 Another measure of competitiveness, we examined was the ratio of MW bid to
18 MW needed. For the entire RFP we received approximately 5.0 MW bid for
19 every MW needed. This represents a slight decrease from last June's bid, which
20 saw 5.7 MW bid for every block needed overall. For the Allegheny Residential
21 products alone the ratio was also 5.0 to 1, a slight increase compared to last June,
22 where the ratio was 4.5 to 1.

² We compare the results to the 2010 January and June bid days because they solicited a similar range of products. The first bid day for the 2011 RFP, held in October 2010, solicited much more residential supply, which generally leads to a higher turnout of bidders.

1

2 Q. Did you examine any other measures of participation?

3 A. We examined the number of winners. There were six winners, two more than last
4 June's procurement in which we had four winners, but slightly down from last
5 January where we had seven winners.

6

7 Q. Please describe your findings with respect to prices.

8 A. The primary test for reasonable prices in this RFP is the Price Anomaly Threshold
9 or PAT. This serves as a "hard cap" on bids, meaning that it forces some bids to
10 be rejected if winning bids are higher than the PAT.³ A PAT is developed for all
11 Residential and Type I products.

12

13 Q. Did the implementation of the PAT cause any bids to be rejected?

14 A. The implementation of the PAT did not lead to the rejection of any winning bids.
15 All winning prices came in below the PAT.

16

17 Q. Please describe your findings with respect to rules and regulations.

18 A. In this the RFP was successful. All procedures were carried out as envisioned in
19 the RFP. This included: (a) all documents and data properly posted, (b)
20 conformance with the bid plan, and (c) a price-based method of determining
21 winners. All security procedures were properly observed. Most importantly,

³ Technically, the PAT is compared against the *average* price of winning bids, so some individual bids may exceed the PAT.

1 Boston Pacific was able to independently review bids and determine the winners
2 and winning prices.

3

4 Q. Does this conclude your testimony?

5 A. Yes.

6

Results for Residential Products

Product	Number of Bidders		MW Solicited /Awarded	MW Bid	Ratio of MW Bid to Solicited	Number of Winners
	Qualified	Actual				
APS - 12 Month Residential	8	5	46.1	230.5	5.0	1
APS - 24 Month Residential	8	5	46.1	230.5	5.0	1
Total	8	5	92.2	461.0	5.0	1

Results for Type II

Product	Number of Bidders		MW Solicited /Awarded	MW Bid	Ratio of MW Bid to Solicited	Number of Winners
	Qualified	Actual				
BGE - Type II	11	6	551.3	2656.3	4.8	4
PEPCO - Type II	11	6	266.4	1385.3	5.2	2
APS - Type II	8	5	135.9	679.5	5.0	1
DPL -Type II	10	5	72.4	362.0	5.0	1
Total	13	7	1026.0	5083.1	5.0	6