

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

June 9, 2011

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23

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

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

Q. Please briefly summarize your qualifications and those of your firm as monitoring consultants for full requirements RFPs.

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

1 Q. What is the purpose of your testimony?

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

6

7 Q. What is your recommendation?

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

- 10 1. The winning prices were consistent with broader market conditions. No  
11 winning bids were rejected due to implementation of the Price Anomaly  
12 Threshold.
- 13 2. The RFP was sufficiently competitive. Eight bidders participated in at  
14 least one of the product offerings and six bidders won some share of  
15 supply. Ultimately, the entire supply of each product was fully  
16 subscribed.
- 17 3. The RFP was open, fair and transparent. All bidders, including utility  
18 affiliates signed the same contract and all bids were judged solely on the  
19 basis of price.
- 20 4. There were no violations of RFP rules or regulations. All bids were  
21 properly evaluated in a manner laid out in the RFPs.

22

1 More broadly, we base this recommendation on Boston Pacific’s independent  
2 review and ranking of all of the submitted bids, our assessment of current market  
3 conditions, and our substantial experience as monitors for Standard Offer Service  
4 RFPs. We also base this on our full participation in all phases of the RFP process.  
5 This included: reviewing all RFP documents and data, monitoring the RFP  
6 websites, reviewing all Q&A, attending the pre-bid conference, participating in  
7 pre-bid dry runs to test bidding software, and discussions with Staff, the Maryland  
8 Office of People’s Counsel (OPC), and utilities regarding multiple issues.

9

10 Q. When did the solicitations take place and what products were solicited in this  
11 fourth bid day?

12 A. This fourth bid day took place on Monday, June 6<sup>th</sup>. It solicited full requirements  
13 service<sup>1</sup> for six different products among four utilities.

14 For Baltimore Gas and Electric (BGE)

15 1. 483 MW of Type II supply covering the September 1, 2011 to November  
16 30, 2011 time frame<sup>2</sup>

17 For Pepco

18 1. 260.5 MW of Type II supply covering the September 1, 2011 to  
19 November 30, 2011 time frame

20 For Potomac Edison

---

<sup>1</sup> 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.

<sup>2</sup> Numbers may differ very slightly from Exhibit One due to rounding

- 1           1.    46.4 MW of Residential supply covering the June 1, 2012 to May 31, 2013
- 2                    time frame
- 3           2.    43.0 MW of Residential supply covering the June 1, 2012 to May 31, 2014
- 4                    time frame
- 5           3.    124.0 MW of Type II supply covering the September 1, 2011 to
- 6                    November 30, 2011 time frame

7           For Delmarva Power and Light

- 8           1.    70.0 MW of Type II supply covering the September 1, 2011 to November
- 9                    30, 2011 time frame

10

11           The solicitation was a fixed-price pay as bid process. Supply was broken into

12           “blocks” of roughly 50 MW each, representing a percentage share of the total

13           product load. Bidders offered prices at which they would serve each product. All

14           bidders for a given product signed the same contract so selection was based solely

15           on which bidders offered the lowest price. Winners will be paid the prices that

16           they bid.

17

18    Q.    Please explain the criteria used in making your recommendation.

19    A.    In evaluating Standard Offer Service procurements we generally like to look for

20           four standards: (a) Are winning prices consistent with broader market conditions?

21           (b) Was there sufficient competition? (c) Was the process open, fair, and

22           transparent? and (d) Did the process adhere to procedures as laid out in the RFP

23           and Commission Orders?

1

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

3 A. This RFP process was structurally open, fair, and transparent because it (a) had a  
4 well defined product that could be offered by multiple parties, (b) used standard  
5 contracts – so there was no discretion on non-price factors in choosing winners,  
6 and (c) featured a straightforward, price-only bid evaluation. Additionally, the  
7 utilities were prompt in answering questions from bidders and distributing  
8 information to all bidders.

9

10 Q. Please describe your findings with respect to competitiveness.

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

14

15 Q. What information did you review regarding competitiveness?

16 A We first looked at the number of bidders. There were a total of eight bidders who  
17 submitted bids for one or more of the six products available. This is a good  
18 number of bidders, and the same as in January<sup>3</sup>.

19

20 Another measure of competitiveness we examined was the ratio of MW bid to  
21 MW needed. For the entire RFP we received approximately 5.5 MW bid for  
22 every MW needed, which is up from 5.0 MW bid for every MW needed in

---

<sup>3</sup> We compare to the January bid day because it solicited a similar range of products. The bid day in April also solicited much more residential supply, which generally leads to a higher turnout of bidders.

1 January. For the Potomac Edison 12 and 24 - Month Residential products alone  
2 the number was 4.0 to 1. This represent a decrease from last January's bid, which  
3 saw 5.0 MW bid for every Residential MW needed but is still a healthy level of  
4 competition.

5  
6 Q. Did you examine any other measures of participation?

7 A. We examined the number of winners. There were six winners, the same number  
8 as last January's procurement.

9  
10 Q. Please describe your findings with respect to prices.

11 A. The primary test for reasonable prices in this RFP is the Price Anomaly Threshold  
12 or PAT. This serves as a "hard cap" on bids, meaning that it forces some bids to  
13 be rejected if winning bids are higher than the PAT<sup>4</sup>. A PAT is developed for all  
14 Residential and Type I products.

15  
16 Q. Did the implementation of the PAT cause any bids to be rejected?

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

19  
20 Q. Please describe your findings with respect to rules and regulations.

21 A. In this the RFP was successful. All procedures were carried out as envisioned in  
22 the RFP. This included: (a) all documents and data properly posted, (b)

---

<sup>4</sup> Technically, the PAT is compared against the *average* price of winning bids, so some individual bids may exceed the PAT.

1 conformance with the bid plan, and (c) a price-based method of determining  
2 winners. All security procedures were properly observed. Most importantly,  
3 Boston Pacific was able to independently review bids and determine the winners  
4 and winning prices.

5

6 Q. Does this conclude your testimony?

7 A. Yes.

8

**Results for Residential Products**

Product	Number of Bidders		MW Solicited /Awarded	MW Bid	Ratio of MW Bid to Solicited	Number of Winners
	Eligible	Actual				
PE - 12 Month Residential	9	4	46.4	185.6	4.0	1
PE - 24 Month Residential	9	4	43.0	172.0	4.0	1
Total	9	4	89.4	357.6	4.0	1

**Results for Type II Products**

Product	Number of Bidders		MW Solicited /Awarded	MW Bid	Ratio of MW Bid to Solicited	Number of Winners
	Eligible	Actual				
BGE - Type II	11	7	483.0	2559.9	5.3	2
PEPCO - Type II	11	7	260.5	1667.2	6.4	3
PE - Type II	9	5	123.9	619.5	5.0	2
DPL -Type II	10	6	70.0	420.0	6.0	1
Total	14	8	937.4	5266.6	5.6	5