

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

OCTOBER 28, 2010

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 Proposal
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 first bid day for the Maryland Utilities' 2011 Request for Proposals (RFP)
4 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. Eleven bidders participated in at
13 least one of the product offerings and seven 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 first
9 bid day?

10 A. This first bid day took place on Monday, October 25th. It solicited full
11 requirements service¹ for ten different products among four utilities.

12 For Baltimore Gas and Electric (BGE)

- 13 1. 803.2 MW of Residential supply covering the June 1, 2011 to May 31,
14 2013 time frame
- 15 2. 64.6 MW of Type 1 supply covering the June 1, 2011 to May 31, 2013
16 time frame
- 17 3. 546.7 MW of Type II supply covering the December 1, 2011 to February
18 28, 2011 time frame

19 For Pepco

- 20 1. 349.3 MW of combined Residential and Type I supply covering the June
21 1, 2011 to May 31, 2013 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 2. 264.5 MW of Type II supply covering the December 1, 2010 to February
2 28, 2011 time frame

3 For Allegheny Power

4 1. 46.8 MW of Residential supply covering the June 1, 2011 to May 31, 2012
5 time frame

6 2. 46.8 MW of Residential supply covering the June 1, 2011 to May 31, 2013
7 time frame

8 3. 135.9 MW of Type II supply covering the December 1, 2010 to February
9 28, 2011 time frame

10 For Delmarva Power and Light

11 1. 129.0 MW of combined Residential and Type I supply covering the June
12 1, 2011 to May 1, 2013 time frame

13 2. 74.2 MW of Type II supply covering the December 1, 2010 to February
14 28, 2011 time frame

15

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

22

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

1 A. In evaluating Standard Offer Service procurements we generally like to look for
2 four standards: (a) Are winning prices consistent with broader market conditions?
3 (b) Was there sufficient competition? (c) Was the process open, fair, and
4 transparent? and (d) Did the process adhere to procedures as laid out in the RFP
5 and Commission Orders?
6

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

8 A. This RFP process was structurally open, fair, and transparent because it (a) had a
9 well defined product that could be offered by multiple parties, (b) used standard
10 contracts – so there was no discretion on non-price factors in choosing winners,
11 and (c) featured a straightforward, price-only bid evaluation. Additionally, the
12 utilities were prompt in answering question from bidders and distributing
13 information to all bidders.
14

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

16 A. We assessed several indicators of the competitiveness for the RFP. A full
17 detailing of the levels of participation for each of the ten products can be found in
18 Exhibit One.
19

20 Q. What information did you review regarding competitiveness?

21 A. We first looked at the number of bidders. There were a total of eleven bidders
22 who submitted bids for one or more of the ten products available. While this is a

1 good number of bidders, it is two less than the number of bidders that participated
2 in the bid day this past April².

3
4 Another measure of competitiveness, we examined was the ratio of MW bid to
5 MW needed. For the entire RFP we received approximately 3.8 MW bid for
6 every MW needed. For the Residential products alone the number was 2.6 to 1.
7 These represent significant decreases from last April's bid, which saw 5.6 MW
8 bid for every block needed overall and 5.9 MW bid for every Residential MW
9 needed.

10

11 Q. Are you concerned with this decline in the ratio of blocks offered for each block
12 needed by residential ratepayers?

13 A. Yes. While we do not have concern about the competitiveness of prices in this
14 particular session of the SOS RFP, this is an issue that should be monitored to
15 assure competitive prices in future RFPs.

16

17 Q. Can you suggest some possible explanations for the decline in this ratio?

18 A. Yes. We suggest four possible explanations although we have not had time to
19 explore or confirm any of them. First, there may be onetime events that meant
20 some bidders did not bid this time around; by onetime events we mean, for
21 example, preoccupation with or changes in ownership and strategy due to mergers
22 and acquisitions. Second, an increase in the number and scale of SOS-type RFPs,

² We compare to the April bid day because it solicited a similar range of products. The fourth bid day in June solicited mostly Type II supply.

1 without a corresponding increase in the number of bidders, may mean bidders
2 have to spread their supply across several RFPs. Third, winning prices may be at
3 or near a low-point so bidders see little potential for locking into a fixed price
4 now and buying supply at lower prices later. Fourth, the Great Recession
5 combined with intense competition may have pushed profit margins very low, so
6 that bidders are just less interested in bidding this time.

7
8 Q. Did you examine any other measures of participation?

9 A. We examined the number of winners. There were seven winners, the same as last
10 April's procurement in which we also had seven winners.

11

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

13 A. The primary test for reasonable prices in this RFP is the Price Anomaly Threshold
14 or PAT. This serves as a "hard cap" on bids, meaning that it forces some bids to
15 be rejected if winning bids are higher than the PAT³. A PAT is developed for all
16 residential and Type I products.

17

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

19 A. The implementation of the PAT did not lead to the rejection of any winning bids.

20 All winning prices came in below the PAT.

21

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

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

1 A. In this the RFP was successful. All procedures were carried out as envisioned in
2 the RFP. This included: (a) all documents and data properly posted, (b)
3 conformance with the bid plan, and (c) a price-based method of determining
4 winners. All security procedures were properly observed. Most importantly,
5 Boston Pacific was able to independently review bids and determine the winners
6 and winning prices.

7

8 Q. Does this conclude your testimony?

9 A. Yes.

10

Results for Residential and Type I Products

Product	Number of Bidders		MW Solicited /Awarded	MW Bid	Ratio of MW Bid to Solicited	Number of Winners
	Qualified	Actual				
BGE - Residential	11	6	803.2	1807.2	2.3	3
BGE - Type I	11	2	64.6	129.2	2.0	1
PEPCO - Residential and Type I	11	6	349.3	1047.9	3.0	2
APS - 12 Month Residential	7	2	46.8	93.6	2.0	1
APS - 24 Month Residential	7	2	46.8	93.6	2.0	1
DPL - Residential and Type I	9	5	129.0	516.0	4.0	3
Total	12	8	1439.7	3687.5	2.6	5

Results for Type II Products

Product	Number of Bidders		MW Solicited /Awarded	MW Bid	Ratio of MW Bid to Solicited	Number of Winners
	Qualified	Actual				
BGE - Type II	11	8	546.7	2882.6	5.3	4
PEPCO - Type II	11	8	264.5	1692.8	6.4	2
APS - Type II	7	5	135.9	679.5	5.0	2
DPL -Type II	9	6	74.2	445.2	6.0	1
Total	12	9	1021.3	5700.1	5.6	5