

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 14, 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 2009-2010 Request for  
6 Proposals (RFP) by the four Maryland utilities. Boston Pacific is located at 1100  
7 New York Avenue NW, Suite 490 East, Washington, DC 20005.

8

9 Q. Have you previously provided testimony in this docket?

10 A. Yes, most recently we submitted testimony on October 22, 2009 regarding the  
11 first bid day of this 2009-2010 RFP.

12

13 Q. Please briefly summarize your qualifications as monitoring consultants for full  
14 requirements RFPs.

15 A. We have extensive hands-on experience monitoring many of the major full  
16 requirements solicitations in the country, including our engagements for (a) New  
17 Jersey's 2007, 2008 and 2009 Basic Generation Service (BGS) Auctions, (b) the  
18 2005 through 2008 Standard Offer Service (SOS) RFPs for the District of  
19 Columbia, (c) Delaware's 2006 through 2008 SOS RFPs, (d) Maryland's SOS  
20 RFPs in 2004, 2005, and 2006 for all four utilities, (e) Allegheny Power's 2009  
21 RFP for full requirements supply in Pennsylvania, (f) the 2006 Illinois Auction  
22 and the 2008 and 2009 Illinois RFPs and (g) FirstEnergy's 2009 Auction for its  
23 Ohio load. We are currently engaged once again as market monitors for the

1 current SOS Auctions in Delaware, New Jersey, Illinois, and the District of  
2 Columbia as well as the aforementioned RFP in Pennsylvania. In each of these  
3 cases we represent the State Utility Commission.

4  
5 Q. What is the purpose of your testimony?

6 A. The purpose of our testimony is to provide a recommendation to the Maryland  
7 Public Service Commission (the Commission) as to whether to accept the results  
8 of this second bid day for the Maryland Utilities' 2009-2010 Request for  
9 Proposals (RFP) for Standard Offer Service.

10

11 Q. What is your recommendation?

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

- 14 1. The winning prices were consistent with broader market conditions. No  
15 winning bids were rejected due to implementation of the Price Anomaly  
16 Threshold.
- 17 2. The RFP was sufficiently competitive. Nine bidders participated in at  
18 least one of the product offerings and 7 bidders won some share of supply.  
19 Ultimately, the entire supply of each product was fully subscribed.
- 20 3. The RFP was open, fair and transparent. All bidders, including utility  
21 affiliates signed the same contract and all bids were judged solely on the  
22 basis of price.

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

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

12  
13        Q.     When did the solicitations take place and what products were solicited in this  
14           second bid day?

15        A.     This second bid day took place on Monday, January 11<sup>th</sup>. It solicited full  
16           requirements service<sup>1</sup> for seven different products among four utilities.

17           For Baltimore Gas and Electric (BGE)

18           1.    572 MW of Type II supply covering the March 1, 2010 to May 31, 2010  
19           time frame

20           For Pepco

21           1.    303 MW of Type II supply covering the March 1, 2010 to May 31, 2010  
22           time frame

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<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.

1 For Allegheny Power

2 1. 47 MW of Residential supply covering the June 1, 2011 to May 31, 2012

3 time frame

4 2. 47 MW of Residential supply covering the June 1, 2011 to May 31, 2013

5 time frame

6 3. 23 MW of Type 1 supply covering the June 1, 2010 to May 31, 2012 time

7 frame

8 4. 141 MW of Type II supply covering the March 1, 2010 to May 31, 2010

9 time frame

10 For Delmarva Power and Light

11 1. 78 MW of Type II supply covering the March 1, 2010 to May 31, 2010

12 time frame

13

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

20

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

22 A. In evaluating Standard Offer Service procurements we generally like to look for  
23 four components: (a) prices consistent with market conditions, (b) sufficient

1 competition, (c) an open, fair, and transparent process, and (d) proper adherence  
2 to procedures as laid out in the RFP and Commission Orders.

3

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

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

11

12 Q. Please describe your findings with respect to competitiveness

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

16

17 Q. What information did you review regarding competitiveness?

18 A We first looked at the number of bidders. There were a total of 9 bidders who  
19 submitted bids for one or more of the seven products available. This compares to  
20 13 total bidders this past October. This drop was to be expected given that the  
21 October bid solicited a much larger amount of residential supply in addition to  
22 the Type II supply bid out here. The four Type II products saw eight bidders in

1 total, the same number of bidders that participated in October. Each product  
2 category had acceptable participation.

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 5.3 MW bid for  
6 every MW needed. For the Residential products alone the number was 5.2 to 1.  
7 The overall number is slightly better than last October, which saw about 5 bids  
8 per MW needed.

9  
10 Finally, we examined the number of winners. There were seven winners, slightly  
11 down from last October's procurement which saw eight winners.

12

13 Q. Please describe your findings with respect to prices

14 A. The primary test for reasonable prices in this RFP is the Price Anomaly Threshold  
15 or PAT. This serves as a "hard cap" on bids, meaning that it forces bids to be  
16 rejected if they are higher than the PAT<sup>2</sup>. A PAT is developed for all residential  
17 and Type I products.

18

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

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

21 All winning prices came in below the PAT.

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<sup>2</sup> Technically, the PAT is compared against the *average* price of winning bids, so some individual bids may exceed the PAT.

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

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

8

9 Q. Does this conclude your testimony?

10 A. Yes.

11

12

13

**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				
APS - 12 Month Residential	10	6	47.4	284.4	6.0	1
APS- 24 Month Residential	10	4	47.4	189.6	4.0	1
APS - Type 1	10	6	23.0	138.0	6.0	1
Total	10	6	117.8	612.0	5.2	2

**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	18	7	572.0	3016.0	5.3	4
PEPCO - Type II	15	7	303.0	1717.0	5.7	4
APS - Type II	12	5	141.0	705.0	5.0	2
DPL -Type II	13	6	78.0	429.0	5.5	2
Total	20	8	1094.0	5867.0	5.4	5