

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 22, 2009

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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 this, the 2009-2010 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 as monitoring consultants for full requirements RFPs.

A. We have extensive hands-on experience monitoring many of the major full requirements solicitations in the country, including our engagements for (a) New Jersey's 2007, 2008 and 2009 Basic Generation Service (BGS) Auctions, (b) the 2005 through 2008 Standard Offer Service (SOS) RFPs for the District of Columbia, (c) Delaware's 2006 through 2008 SOS RFPs, (d) Maryland's SOS RFPs in 2004, 2005, and 2006 for all four utilities, (e) Allegheny Power's 2009 RFP for full requirements supply in Pennsylvania, (f) the 2006 Illinois Auction and the 2008 and 2009 Illinois RFPs and (g) FirstEnergy's 2009 Auction for its Ohio load. We are currently engaged once again as market monitors for the current SOS Auctions in Delaware, New Jersey, Illinois, and the District of Columbia as well as the aforementioned RFP in Pennsylvania. In each of these cases we represent 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 first bid day for the Maryland Utilities' 2009-2010 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. Thirteen bidders participated in at
14 least one of the product offerings and 8 bidders won some share of supply.
15 Ultimately, the entire supply of each product was fully 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 19th. It solicited full
11 requirements service¹ for eleven different products among four utilities.

12 For Baltimore Gas and Electric (BGE)

- 13 1. 877 MW of Residential supply covering the June 1, 2010 to May 31, 2012
14 time frame
- 15 2. 64 MW of Type 1 supply covering the June 1, 2010 to May 31, 2012 time
16 frame
- 17 3. 567 MW of Type II supply covering the December 1, 2009 to February
18 28, 2010 time frame

19 For Pepco

- 20 1. 311 MW of combined Residential and Type I supply covering the June 1,
21 2010 to May 31, 2012 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. 306 MW of Type II supply covering the December 1, 2009 to February
2 28, 2010 time frame

3 For Allegheny Power

- 4 1. 94 MW of Residential supply covering the June 1, 2010 to May 31, 2011
5 time frame
- 6 2. 94 MW of Residential supply covering the June 1, 2010 to May 31, 2012
7 time frame
- 8 3. 23 MW of Type 1 supply covering the June 1, 2010 to May 31, 2012 time
9 frame
- 10 4. 140 MW of Type II supply covering the December 1, 2009 to February
11 28, 2010 time frame

12 For Delmarva Power and Light

- 13 1. 99 MW of combined Residential and Type I supply covering the June 1,
14 2010 to May 31, 2012 time frame
- 15 2. 78 MW of Type II supply covering the December 1, 2009 to February 28,
16 2010 time frame

17

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

1

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

3 A. In evaluating Standard Offer Service procurements we generally like to look for
4 four components: (a) prices consistent with market conditions, (b) sufficient
5 competition, (c) an open, fair, and transparent process, and (d) proper adherence
6 to procedures as laid out in the RFP and Commission Orders.

7

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

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

15

16 Q. Please describe your findings with respect to competitiveness

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

20

21 Q. What information did you review regarding competitiveness?

22 A. We first looked at the number of bidders. There were a total of 13 bidders who
23 submitted bids for one or more of the eleven products available. This compares to

1 14 total bidders at this same time last year. Each product category had acceptable
2 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 MW bid for every
6 MW needed. For the Residential products alone the number was also 5 to 1. The
7 overall number is similar to last October (which saw 4.82 bids per residential
8 block needed).

9
10 Finally, we examined the number of winners. There were eight winners, slightly
11 down from the October 2008 procurement which saw nine 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 PAT². 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.

22

² 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 | 9 | 6 | 94.4 | 472.0 | 5.0 | 1 |
| APS- 24 Month Residential | 9 | 4 | 94.4 | 330.4 | 3.5 | 1 |
| APS - Type 1 | 9 | 4 | 23.0 | 92.0 | 4.0 | 1 |
| BGE - Residential | 13 | 9 | 876.5 | 4333.9 | 4.9 | 5 |
| BGE - Type 1 | 13 | 4 | 63.6 | 254.4 | 4.0 | 1 |
| DPL - Residential and Type 1 | 11 | 7 | 98.6 | 591.6 | 6.0 | 2 |
| PEPCO - Residential and Type 1 | 12 | 9 | 310.8 | 1709.4 | 5.5 | 1 |
| Total | 15 | 12 | 1561.3 | 7783.7 | 5.0 | 7 |

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 | 566.8 | 2473.3 | 4.4 | 2 |
| PEPCO - Type II | 15 | 7 | 305.4 | 1679.7 | 5.5 | 3 |
| APS - Type II | 17 | 5 | 140.1 | 700.5 | 5.0 | 1 |
| DPL -Type II | 13 | 7 | 78.0 | 507.0 | 6.5 | 2 |
| Total | 22 | 8 | 1090.3 | 5360.5 | 4.9 | 4 |