

STATE OF MARYLAND  
BEFORE THE  
PUBLIC SERVICE COMMISSION

In the Matter of Whether New Generating )  
Facilities are needed to Meet Long-Term ) Case 9214  
Demand for Standard Offer Service )

In the Matter of the Commission's )  
Investigation of Investor-Owned Electric )  
Companies' Standard Offer Service for ) Case 9117  
Residential and Small Commercial )  
Customers in Maryland )

COMMENT  
OF  
GOVERNOR MARTIN O'MALLEY

DECEMBER 18, 2009



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TTY USERS CALL VIA MD RELAY

December 18, 2009

Chairman Douglas R.M. Nazarian  
Members, Maryland Public Service Commission

Dear Chairman Nazarian and Members of the Public Service Commission:

Working with key legislators, my Administration developed a rational reregulation proposal during the 2009 Session to take control of our energy future and ensure that all Marylanders have access to affordable, reliable and clean electricity. I proposed to reregulate Maryland's electricity markets going forward for the simple reason that deregulation has failed the vast majority of Marylanders who were promised lower rates and a reliable supply of electricity. While the legislation did not pass, I am convinced that we have no choice but to move forward to protect the interests of Maryland ratepayers.

For the reasons outlined below, I call on the Public Service Commission to use its existing statutory authority to:

- order new electricity generation to be built in Maryland;
- adopt a more balanced, diversified energy mix for residential and small commercial customers; and
- include clean, renewable power as part of the State's long-term energy strategy.

Such steps will go a long way in reducing price pressure, minimizing potential reliability concerns, and steering Maryland towards a more sustainable energy future.

### **The Failure of the Electricity Market**

Residential customers in Maryland are still waiting for the benefits of electricity deregulation promised in 1999. Deregulation was supposed to reduce electricity prices by spurring the development of energy supply competition and the construction of new merchant power plants to meet consumer demand. These benefits never materialized. This is the reality of deregulation:

- Energy generation companies have not built the new generation necessary to meet the State's growing energy needs. Since 2003, the PSC has approved 11 permits for new power plants representing several thousand megawatts of potential new generating capacity, but less than 300 megawatts of new generation has come on line.<sup>1</sup> Most projects have been delayed or abandoned because of financial or commercial uncertainties.
- The lack of in-state electric generation has constrained supply, resulting in higher electricity prices, higher congestion and capacity charges, and future reliability concerns.
- A perverse system of capacity charges imposed by the regional transmission organization, PJM Interconnection has been created, adding hundreds of dollars to residential bills with little benefit. From 2008 to 2013, it is estimated that Maryland ratepayers will pay nearly \$5 billion in capacity charges to incentivize the private sector to build new generation – enough to pay for seven new power plants - but no new baseload generation will be built as a result of these incentives.
- With no new generation, Maryland's power plants continue to age, posing ongoing reliability concerns. Over 67% of the State's total summer peak generating capacity is 30 or more years old.<sup>2</sup>
- Maryland now imports almost 30% of its energy from nearby states, mostly from coal-fired power plants in West Virginia and the Ohio Valley.<sup>3</sup> This negatively impacts the State's efforts to meet its climate goals and reduce greenhouse gas emissions.
- Since 1999, fewer than 5% of Maryland's 2.1 million residential customers have chosen retail electricity supplier offers, much of this consisting of green choice.<sup>4</sup>

### **Essential Elements in Taking Control of our Energy Future**

Maryland cannot be held hostage to the failure of deregulation and broken energy markets. We can no longer afford to passively wait for competitive energy prices or pay higher incentives for merchant generation. Marylanders deserve affordable, reliable and clean energy. To achieve these goals, I respectfully urge the Public Service Commission to use its existing statutory authority to take the following specific steps:

- 1. Order new generation to be built in Maryland under a traditional, rate-regulated, cost-of-service basis.**

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<sup>1</sup> Maryland Public Service Commission, Ten-Year Plan (2008-2017) of Electric Companies in Maryland, February 2009, page 10-11, Ten-Year Plan (2007-2016) of Electric Companies in Maryland, December 31, 2007, page 9, Ten-Year Plan (2006-2015) of Electric Companies in Maryland, December 2006, page 27.

<sup>2</sup> Maryland Public Service Commission, Ten-Year Plan (2008-2017) of Electric Companies in Maryland, February 2009, Page 6.

<sup>3</sup> Ibid, approximately 20,500 Gwhrs imported or 29.1% of total sales, Page 5.

<sup>4</sup> PSC Electric Choice Enrollment Monthly Report, Month ending October 2009, [http://webapp.psc.state.md.us/Intranet/CaseNum/submit\\_new.cfm?DirPath=\\Coldfusion\Electric Choice Reports\2009 Electric Choice Enrollment Reports&CaseN=Electric Choice Enrollment Monthly Reports](http://webapp.psc.state.md.us/Intranet/CaseNum/submit_new.cfm?DirPath=\\Coldfusion\Electric Choice Reports\2009 Electric Choice Enrollment Reports&CaseN=Electric Choice Enrollment Monthly Reports)

In a December 2008 report, the PSC estimated that 1,080 megawatts of new generation in the State will result in \$4 billion in rate reductions over 20 years (saving consumers an average of \$200 million annually).<sup>5</sup> Such new generation would also help address Maryland's aging electricity fleet, improve reliability, reduce PJM capacity charges, and reduce our dependence on highly congested transmission lines. While I am encouraged that the proposal to build the Calvert Cliffs 3 nuclear power plant continues to move forward, the project still faces many hurdles and the State cannot and must not rely on this project alone to meet its future energy needs.

It is my firm belief, after discussions with the Maryland Energy Administration, my energy advisors and others in the industry, that there is ample evidence to support the PSC ordering new generation through this case. I hope the Commission will conclude it as quickly as possible, and no later than this summer, to help Maryland ratepayers.

**2. Restructure how the PSC procures electricity for residential and small commercial customers.**

The PSC should adopt a more balanced, and diversified strategy for procuring electricity for residential and small commercial customers that includes a mix of demand resources, transmission supply, regulated generation and market based short term, mid-term and long term generation contracts. A managed portfolio approach provides a hedge against future price spikes, thereby reducing price volatility. Such an approach complements an order to build new, regulated generation as such generation would provide a small portion of Maryland's overall electricity supply.

**3. Ensure that at least a portion of the power procured as either regulated or under a long term contract be generated from renewable energy sources.**

Renewable energy sources, such as wind and solar, can serve as a valuable hedge against expected increases in traditional fossil fuel commodity costs and help to achieve Maryland's renewable portfolio goals. As such, renewables are an essential element in a balanced, diversified energy supply. Long-term power purchase agreements or construction contracts for new, renewable generation would help reduce price volatility, expand generation capacity and accelerate the transition to a more diverse and sustainable energy future. Such a step also would go a long way towards aligning sound energy policy with the state's environmental and climate goals.

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<sup>5</sup> Maryland Public Service Commission, Final Report Under Senate Bill 400: Options for Re-Regulation and New Generation, December 16, 2008, Slides 32-33, [http://webapp.psc.state.md.us/Intranet/sitesearch/whats\\_new/MD%20PSC%20Slide%20Presentation\\_12.16.08\\_Re%20SB%20400%20Final%20Report.pdf](http://webapp.psc.state.md.us/Intranet/sitesearch/whats_new/MD%20PSC%20Slide%20Presentation_12.16.08_Re%20SB%20400%20Final%20Report.pdf)

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Members, Maryland Public Service Commission  
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I believe the above actions will help restore confidence in Maryland's electricity supply and secure significant benefits for Maryland citizens and future generations. The costs of inaction, namely higher energy prices, the threat of future electricity shortages, increased reliance on out-of-state coal-fired power, and fuel price volatility, can no longer be ignored. I therefore urge the Commission to seize this opportunity to secure an affordable, reliable and sustainable energy future for our State.

Sincerely,

A handwritten signature in black ink, appearing to read "Martin O'Malley". The signature is fluid and cursive, with a large initial "M" and "O".

Governor Martin O'Malley