



ENERGY INSIGHTS

Information for policy leaders

November 23, 2011

Maryland PSC order puts financial risk on utility ratepayers

Cost of new generation

Shopping continues to increase in Maryland

Two utilities may petition Maryland PSC to reconsider order

Maryland governor to renew push for off-shore wind

Maryland governor asks PSC to expand scope of generation proposal

Pepco Standard Offer Service prices will decrease

Study finds that generation subsidies inflict long-term economic harm

Contact

 **Gene Alessandrini**
Sr. Vice President-Marketing
lgalestrandini@pplweb.com

Bob Barkanic
Sr. Director-Energy Policy
rjbarkanic@pplweb.com

Christine Martin
Vice President-State
Government Relations
cmmartin@pplweb.com

PPL ENERGYPLUS
www.pplenergyplus.com

Maryland PSC order puts financial risk on utility ratepayers

The Maryland Public Service Commission's recent order that utilities seek proposals for construction of up to 1,500 megawatts of additional unnecessary natural gas-fired generating capacity places considerable risk on consumers, who could end up footing the bill for uneconomical and unnecessary new plants.

"Maryland consumers benefit from being in one of the largest structured power markets in the world," said Gene Alessandrini, senior vice president-Marketing for PPL EnergyPlus®, a long-time participant in Maryland's energy market.

"The PSC order is a move away from the market, and a step back in time to the days when the captive customers assumed all the risks of building and operating power plants that were part of the regulated utility rates they paid," he said.

The structured PJM market has provided economical new generation, expansion of existing plants and, importantly, a significant growth in demand-response and energy efficiency programs that come at a fraction of the cost of building new power plants.

"There is no 'perfect market,' but the PJM market is effective and continues to be adjusted and improved," Alessandrini said.

With current reserve margins in the PJM market of around 20 percent, the need for new generation is difficult to justify from an economic standpoint. To illustrate that point, prices in the most recent PJM capacity auction (for the 2014-15 period) are far lower than the cost for new generation to enter the market.

"The proof that Maryland has sufficient power supply resources is in the results of last summer's heat wave," Alessandrini said. "During a prolonged period of record-breaking hot weather, there were no major disruptions in electricity supply. The only customers who saw their electricity supply curtailed were those who voluntarily enrolled in a PJM demand-response program."

Government policies that subsidize new generation the region doesn't need are costly for consumers, harm investment in all energy resources and set a dangerous precedent.

Developers see the current market conditions, and are unwilling to accept the financial risk of investing in new power plants, Alessandrini said, but are perfectly willing to shift that burden to someone else, in this case the ratepayers of Maryland utilities.

"The Maryland legislature wisely was unwilling to re-regulate electricity markets two years ago, but through this order the PSC is bypassing the will of the legislature by re-regulating one power plant at a time," Alessandrini said. "Let the market work. It will produce the appropriate price signals and most economical results when new generation is needed."

Cost of new generation

Generation source	Cost (cents per kilowatt-hour)
Combined cycle natural gas	6.0-7.4
Coal	8.5-11.1
On-shore wind (Mid-Atlantic Region)	8.2-11.5
Nuclear	10.1-12.1
Solar	15.9-32.4
Off-shore wind (East Coast)	18.7-35.0

Source: Energy Information Administration 2011 Annual Energy Outlook, Dec. 2010

This Energy Insights newsletter includes forward-looking statements regarding future energy prices, supply and demand, regulatory activities and other potential events. Our forward looking statements are based on current expectations, estimates and projections that involve a number of uncertainties. Actual future events could differ materially from the anticipated events described in this document.

Shopping continues to increase in Maryland

Number of shopping customers	Residential	Small C&I	Mid C&I	Large C&I	Total
8/31/09	80,574	40,754	26,703	1,294	149,325
8/31/10	173,850	46,669	27,884	1,366	249,769
8/31/11	367,749	53,065	30,147	1,367	452,328

Source: Maryland Public Service Commission website

Two utilities may petition Maryland PSC to reconsider order

Pepco and Delmarva Power have asked the Maryland Public Service Commission to reconsider its order to seek proposals for up to 1,500 megawatts of new generation under long-term power supply contracts, saying that the PSC also should consider cost recovery by utilities and other issues, including utility-owned generation.

In the utilities' joint submission to the PSC, the utilities reaffirmed their belief that the competitive market "produces reliable electricity supply at reasonable prices for Standard Offer Service customers." They added that if the PSC determines new generation to be in the public interest, customers would be better served by utility-owned generation than long-term contracts.

Either option represents a significant disruption to competitive markets, said Gene Alessandrini, senior vice president-Marketing for PPL EnergyPlus.

He said utility-built generation and long-term power supply contracts would lead to the same results: greater risk for consumers, threats to future generation development and higher electricity prices in the long-run.

Maryland governor to renew push for off-shore wind

Speaking at a recent conference hosted by the American Wind Energy Association in Baltimore, Maryland Gov. Martin O'Malley said he plans to renew efforts to secure government incentives for wind energy development off the Maryland coast.

The governor said the greatest challenges for off-shore wind energy are political, not financial or technological. He cited results of a poll conducted by the National Wildlife Federation and Offshore Wind Coalition that a majority of Maryland residents supports off-shore wind energy if it adds \$2 a month to their electric bills.

Based on its knowledge of energy markets, PPL EnergyPlus says electricity generated by off-shore wind projects is about three to four times more expensive than conventional generation sources and on-shore wind projects.

"Renewable energy is an important resource and we support its development," said Gene Alessandrini, senior vice president-Marketing for PPL EnergyPlus. "In fact, competitive markets provide a strong platform for renewable energy, but the investment should be driven by the market.

"Policies that pick winners and losers by mandating certain types of energy and forcing utility customers to subsidize the costs disrupt the market, create uncertainty and hurt consumers by driving up prices needlessly," he said.

Maryland governor asks PSC to expand scope of generation proposal

Maryland Gov. Martin O'Malley has asked the Public Service Commission to include renewable energy projects and utility-owned generation in a request for proposals for new, in-state generation.

In his letter to the PSC, the governor said that limiting the RFP to natural gas-fired power plants "is not in the public's best interest."

PPL EnergyPlus views the PSC order as a move away from competitive markets that have economically met Maryland's electricity needs. The governor's comments would further add to the risks that Maryland utility customers would bear to develop and operate new generation.

Pepco Standard Offer Service prices will decrease

Pepco has filed Standard Offer Service prices for residential and commercial customers for the summer of 2012.

The new prices for residential customers who do not choose alternative suppliers will be less than Standard Offer Service prices in the summer of 2011, reflecting the continuing trend of lower electricity prices in the competitive wholesale market, and how that trend is benefitting consumers.

The summer Standard Offer Service price for Pepco residential customers effective June 1, 2012, through Sept. 30, 2012 will be 8.531 cents per kilowatt-hour. The price in the summer of 2011 was 9.163 cents per kilowatt-hour. That represents approximately a 7 percent reduction.

Pepco residential customers who choose alternative suppliers may be able to realize even greater savings on electricity costs. As opportunities grow, Pepco residential customers are shopping in greater numbers.

As of Sept. 30, 2011, more than 98,000 Pepco residential customers had chosen alternative suppliers, according to information posted on the Public Service Commission website. As of Sept. 30, 2010, about 51,000 Pepco residential customers had shopped.

Study finds that generation subsidies inflict long-term economic harm

A recent economic study of competitive electricity markets commissioned by the COMPETE Coalition found that government policies promoting "end runs" around private-sector investment ultimately destroy jobs and hurt consumers.

The study was prepared by economist Jonathan Lesser. A copy is available for viewing on the PPL EnergyPlus website. PPL EnergyPlus is a member of the COMPETE Coalition, a group of energy users, suppliers, generators, transmission owners, trade associations, environmental groups and economic development organizations that support well-structured, competitive electricity markets.