



National Energy Marketers Association

STATE OF MARYLAND

PUBLIC SERVICE COMMISSION

COMMENTS OF THE NATIONAL ENERGY MARKETERS ASSOCIATION ON ISSUES RELATING TO THE RETAIL GAS MARKET IN MARYLAND

The National Energy Marketers Association (NEM) hereby submits comments on issues relating to the retail gas market in Maryland pursuant to the, "Notice of Retail Gas Market Conference," issued August 24, 2001.¹ NEM's comments will focus specifically on initiatives necessary to promote gas choice.

The National Energy Marketers Association (NEM) is a national, non-profit trade association representing both wholesale and retail marketers of energy and energy-related products, services, information and technologies throughout the United States. NEM's membership includes: small regional marketers, large traditional international wholesale and retail energy suppliers (as well as wind and solar power), billing and metering firms, Internet energy providers, energy-related software developers, risk managers, energy brokerage firms, information technology providers and both manufacturers and suppliers of advanced distributed generation. Our membership has both affiliated and unaffiliated companies.

This regionally diverse, broad-based coalition of energy and technology firms have come together under the NEM auspices to forge consensus and to help eliminate as many issues as possible that would delay competition. NEM is committed to working with representatives of state and federal governments, large and small consumer groups and utilities to devise fair and effective ways to implement restructuring of natural gas markets.

¹ Inasmuch as NEM was not served with a copy of the "Notice of Retail Gas Market Conference" and only became aware of this comment opportunity on September 14, 2001, NEM was unable to file comments by the September 11, 2001, due date.

NEM has developed recommendations entitled, "*National Guidelines for Unbundling and Restructuring the Natural Gas Distribution Function*," and, "*National Guidelines for Designing and Pricing Default Energy and Related Services*," copies of which are attached hereto and incorporated by reference. These Policy Guidelines set forth a number of recommendations that will foster and promote gas choice in Maryland.

1. Properly Structured Consumer Shopping Credits

NEM asserts that in order to promote gas choice, utilities should be encouraged to "exit" competitive businesses and focus all ratepayer dollars on performing services that can only be performed by a natural monopoly. In the process, consumers should be given "shopping credits" on their utility bills equal to the utility's fully embedded costs of providing competitive services that have been historically bundled with traditional monopoly services. Currently, captive utility customers pay monopoly prices for a bundle of services that include many products and services that can and should be provided by competitive suppliers at competitive prices. Failure to give consumers credits that reflect the full costs historically associated with these services will send erroneous pricing signals to consumers and cause consumers to pay twice for the same services. Shopping credits which "back out" the proper amounts from utility rates will permit consumers to shop for competitive services, encourage price competition among suppliers, improve efficiency and stimulate innovation. Consumer shopping credits should include the full costs of competitive products, services, information and technology required to serve retail customers that are currently included in utilities' rates. For example, a list of such costs, that is by no means exhaustive, includes the cost of procuring energy; retail load shape factor costs; costs of risk management; scheduling costs; pool operating costs; line losses; costs of load forecasting; environmental disclosure; costs of negotiating and managing supply contracts; costs of regulatory compliance and litigation; taxes; administrative and general costs; customer service; billing; bad debt; collections; marketing; and a competitive return on risk capital. Until consumers are given the full

monopoly prices they are currently paying for competitive services to shop for alternative energy services, price competition and lower energy costs will be difficult to achieve.

2. Default Service

NEM further asserts that the pricing of default service is critically important to the development of a new competitive market because the default service price serves as the "price to compare" - the target against which consumers judge all competitive offers. Default service must be priced to reflect the true costs of no-notice retail service for each customer class. If the default price is subsidized or set artificially low, meaningful competition on the basis of price and quality of service will not be possible.

The costs to provide default service vary by customer group. Properly designed default service prices should reflect these differences to encourage competition for all customer classes. Inasmuch as the costs to provide services varies by customer class, the default service entity and default service pricing should be structured to reflect those real price differences, and as a result, will encourage competition for all customer classes. Furthermore, NEM asserts that the default service function should reflect all of the political, social and reliability concerns of providing last resort service. The default service function can include a hedging requirement as well as a reserve requirement as part of a request for competitive proposals for a default service entity.

NEM also urges that specific programs be designed to address low-income needs rather than trying to utilize default service for this purpose. Often, concerns that low-income individuals will be unwelcome in the competitive market drives, explicitly or implicitly, the design and pricing of default service. This approach serves neither low-income customers nor the development of a competitive market well. Specific programs should be designed to serve low-income needs and to facilitate the targeting of public benefits funds. Such programs might include aggregation of low-income customers to access lower prices in the competitive

market, perhaps with subsidies or guarantees of payment that would ensure the lowest-cost supply for these customers.

NEM reiterates our commitment to working with the Commission and the other stakeholders to devise fair and effective ways to promote the competitive restructuring of Maryland's natural gas markets.

Sincerely,

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