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By Electronic Filing and Federal Express
Mr. David J. Collins
Maryland Public Service Commission
William Donald Schaefer Tower
6 Saint Paul Street, 16th Floor
Baltimore, MD 21202-6806

Re: BGE Electricity Purchase of Receivables Discount Rates (ML# 214942)

Dear Mr. Collins:

The Retail Energy Supply Association ("RESA")[1] submits this letter in response to the filing by Baltimore Gas and Electric Company ("BGE") to update its purchase of receivables ("POR") electricity discount rates. The Commission heard oral argument at its May 31, 2017, administrative meeting and deferred the matter until a later meeting, suspending implementation of the proposed rates to allow for additional inquiry into BGE's proposed RM54 programming costs. The matter is currently scheduled for the Commission's July 5, 2017 administrative meeting.

RESA appreciates Staff's inquiries into the reasonableness of the proposed programming costs and allocation methods. However, RESA continues to object to the inclusion of these costs in the discount rates because they are related to BGE's efforts to implement 3-business-day switching and other rules adopted in RM54. As RESA explained in prior comments (ML# 215416), and as amplified below, it is not reasonable to allow BGE to recover 100% of its RM54 costs from retail suppliers.

BGE's RM54 Program Development Costs Should Be Excluded From the Discount Rates

BGE proposes to include $680,603 in Program Development Costs in its discount rate. Amortized over a two-year period, BGE seeks approval to recover a total

[1] The comments expressed in this filing represent the position of the Retail Energy Supply Association (RESA) as an organization but may not represent the views of any particular member of the Association. Founded in 1990, RESA is a broad and diverse group of more than twenty retail energy suppliers dedicated to promoting efficient, sustainable and customer-oriented competitive retail energy markets. RESA members operate throughout the United States delivering value-added electricity and natural gas service at retail to residential, commercial and industrial energy customers. More information on RESA can be found at www.resausa.org.

of $1,361,206 in proposed costs through its electricity discount rates. RESA requests that the Commission reject BGE's attempted recovery of RM54 costs through the discount rate for at least five reasons.

First, BGE contends that, under Schedule 3 of the Supplier Coordination Tariff, the types of costs recoverable as "Program Development Costs" include, but are not limited to, "programming, testing and other information technology costs directly associated with COMAR 20.53." BGE contends that RM54's revisions to COMAR 20.53, which include accelerated switching and others, fall within Schedule 3 for cost recovery.

Recovery of programming and IT costs associated with the implementation of POR under COMAR 20.53 may have been allowed in 2010 when the POR programs were being developed and implemented, but this tariff provision should not be interpreted to include future, unforeseeable costs that are incurred as a result of a sweeping overhaul of COMAR 20.53, which is what occurred in RM-54. BGE's broad interpretation of its tariff would allow for cost recovery for any cost incurred as part of COMAR 20.53 for any program regardless of its relationship to the POR program. The cost of implementing accelerated switching is not related to implementing, testing, maintaining, or remotely associated with the POR program. It is simply a modification of the switching rules for customers.

Second, 100% cost recovery from retail suppliers through the POR program would not be good policy. The implementation of 3-business-day switching serves as both a customer protection and a customer benefit. It allows customers to take advantage of supplier offers more quickly than the former rule, which could have required customers to wait for up to approximately 42 days to switch because switch requests had to be submitted at least 12 days before the customer's next meter read date. Moreover, working hand-in-hand with the new 12-day rule in COMAR 20.53.07.13, customers with monthly variable prices now have access to their next month's price 12 days before the new price becomes effective, and they can change suppliers within three business days to avoid the new price if they so choose. The new rules speed up the switching time and are more consistent with customers' expectations to sign up for, and receive, products quickly in today's Amazon-driven society. For its part, the Office of People's Counsel supported the move to expedited switching.[2]

With that background, it is easy to see that accelerated switching is not purely a supplier benefit, and suppliers should not be required to pay 100% of the utilities' costs to implement and comply with the new RM54 rules.[3] The primary purpose of the new rule was to enable customers to get what they want when they want it, just as they can when they order something on the internet and expect it to be delivered to their house the next day. In fact, the primary reason suppliers supported accelerated switching is that, based on actual supplier experiences, customers viewed the "lag time" for switching as the supplier's fault, when the problem was the antiquated switching rules and utility

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[2] *See, e.g.,* RM-54, Comments of OPC at 4 (Sept. 1, 2015).

[3] Pepco and Delmarva Power have each proposed to recover RM54 related costs through their discount rates as well. *See* ML #s 214750 and 214751.

business processes, and was not the result of any technological deficiency on the part of the supplier. RESA advocated for the new rule to encourage positive customer shopping experiences and to further competition, a Maryland policy and statutory priority since 1999.

Third, allowing recovery of 100% of the RM54 costs through the discount rates would send the wrong signal to retail suppliers. As explained above, the possibility of unpredictable or unknown costs being included in POR discount rates on an annual basis introduces material risk to current suppliers and deters new suppliers from entering the Maryland market. Also, utilizing POR would result in the unintended consequence of exempting those suppliers who do their own billing (through dual billing) and could encourage those utilizing POR to no longer utilize utility consolidated billing because they would be receiving less value for their purchased accounts.

Fourth, recovery of RM54 costs through the discount rate violates the ratemaking principle of cost recovery following cost causation. From the perspective of traditional ratemaking, RM54 costs have nothing to do with the costs that should be recovered through the POR discount rate, which should reflect the annual costs that the utility incurs in actually maintaining the program, as well as uncollectible expenses relating to supplier charges billed through utility consolidated billing. RM54-related costs are not related to, or caused by, maintaining the POR program.

Fifth, any POR-based recovery of RM54 costs would unfairly and disproportionately assess suppliers based on market share. The more customers a supplier has utilizing POR, the more significant the POR discount and the more the supplier will be contributing to RM54 cost recovery. In short, instead of receiving the benefit of investments through the acquisition of a greater number of customers, these suppliers are penalized by being required to make a proportionally larger financial contribution to RM54 cost recovery.

In essence, the new RM54 rules benefit all Marylanders and, therefore, the costs should be recovered from all customers, either through base rates or through a utility choice-related rate rider that could be trued-up on an annual basis. At this time, however, RESA recommends that the Commission direct BGE to remove the $680,603 in RM54 costs from its currently proposed electricity POR discount rates. RESA also recommends that BGE be instructed to adhere to this directive when submitting future POR discount rates for electricity and for natural gas.

Conclusion

RESA appreciates the opportunity to comment on BGE's POR filings. RESA recommends that the Commission accept the discount rates proposed by BGE, which include late payment revenues ("LPRs") in the discount rate calculation, modified to remove the proposed RM54 program costs. Thus, RESA supports the following POR discount rates:

POR Discount Rates Eff. July 5, 2017	R	Type I	Type II	Hourly Priced
BGE (Electric)	0.1366%[4]	0%	0%	0%

Furthermore, while RESA would participate in a reconvened Supplier Coordination Working Group as proposed by BGE, RESA recommends that the Commission make clear that removing LPRs from the current discount rate calculation, by itself, is not acceptable, and that the stakeholders should discuss: (1) utilizing existing over-recovered monies to enhance retail competition in Maryland; and (2) setting the discount rate to zero for all classes on a permanent basis, with the utilities operating the POR program through base rates or some other alternative.[5]

Sincerely,

Brian R. Greene

c: The Hon. W. Kevin Hughes, Chairman (by email)
The Hon. Harold D. Williams, Commissioner (by email)
The Hon. Michael T. Richard, Commissioner (by email)
The Hon. Anthony J. O'Donnell, Commissioner (by email)
H. Robert Erwin, Jr. (by email)
Phillip E. VanderHeyden (by email)
David Hoppock (by email)
Annette Garofalo (by email)
Kimberly Curry (by email)
Paula Carmody (by email)

[4] This rate is calculated by taking BGE's proposed residential discount rate of 0.2350% and subtracting the proposed Program Development Costs allocated to residential customers, which is 0.0984%. *See* BGE's May 1, 2017 filing at Attachment 1, p. 1.
[5] RESA continues to object to BGE's efforts to exclude LPRs from the discount rate calculation. *See* BGE's May 1, 2017 filing at 2, 3. RESA has set forth its position on this issue numerous times, including ML# 190958 and ML# 215416, which are incorporated herein by reference.