Maryland's Dysfunctional Residential Third-Party Energy Supply Market: An Assessment of Costs and Polices

Executive Sumary

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Maryland's Electric Customer Choice and Competition Act of 1999 opened the door to electric retail competition and allowed a variety of third-party supply companies to sell electricity supply and other services to Maryland's consumers. The regulated utilities continue to provide distribution service to all customers, and they supply service to those customers who do not want to purchase it from competitive suppliers. The idea was that a deregulated energy market would provide consumers with choices, spark competition, and "provide economic benefits to all customer classes."[i] This report examines whether retail competition has benefited residential consumers, especially low-income households. Gas retail competition also is available, subject to the same licensing and consumer protection rules that apply to electric retail competition.

For a variety of reasons, the marketplace for nonregulated suppliers was slow to grow until 2010. The impact, however, during that year was positive: Residential consumers who purchased from non-utility ("third-party") suppliers saved in total about $20 million, as compared to regulated utility supply prices. Between 2011 and 2013, consumers who switched to third-party suppliers came out about even on the whole.

But from 2014 to 2017, Maryland households have been paying tens of millions of dollars more per year in aggregate to third-party electricity suppliers—about $255 million more in all than if they had stayed with their utility's supply offer. This adverse outcome for consumers, despite a large number of suppliers, indicates that Maryland's third-party supply residential market has become dysfunctional[ii]; in its current state, it is no longer fulfilling the purpose of the law—to benefit *all* consumer classes.

Maryland residential third-party supply summary 2014-2017

Year	# on third party supply	% Supplier rate over SOS	Total overpayment compared to S.O.S
2014	477,000	15%	$77 million
2015	441,000	14%	$69 million
2016	418,000	11%	$50 million
2017	400,400	16%	$59 million
Total			**$255 million**

In this report, we examine the impact of higher rates on low-income households, with a focus on Baltimore City. There are 383,000 low-income households in Maryland that are eligible for government assistance to help reduce energy bills; 20 percent live in Baltimore City alone. Statewide, in 2016, assisted households had an average income of about $14,700 and average energy bills of about $2,180—15 percent of income. Many more families live under serious financial stress.

For better insight, we collected data and interviewed clients at a Baltimore City agency that provides a variety of services to low-income Baltimoreans, including energy assistance. Most of the people we interviewed were elderly African-American women. We found the following:

- When compared to Baltimore Gas and Electric Company's (BGE) Standard Offer Service (SOS) rates, the 40 low-income account holders we interviewed paid a 51 percent premium for electricity and a 78 percent premium for natural gas.
- The 40 low-income account holders we interviewed have all applied for, and most have received, financial aid through Maryland's Office of Home Energy Programs (OHEP) to help pay their energy bills. We estimated that over half of the low-income clients who visited the Baltimore City agency for energy assistance in May and June were on third-party supply, more than double the statewide average.
- For a sample of nine energy-assistance clients, we analyzed monthly bill-level data, which revealed that 34 percent of energy-assistance money was negated by higher prices of third-party suppliers.

Since 2009, Public Service Commission (PSC) regulations have allowed regulated utilities to purchase the suppliers' receivables at a very small discount, effectively shifting the risk of nonpayment of bills to the utilities—and the ratepayers—rather than the companies that charge the high prices. Yet no state agency actually collects and analyzes the impact of third-party supply rates for Maryland consumers, even though federal electricity supplier reporting is available. More remarkably, no government agency assesses the impact of higher rates on energy burdens, though the harms to low-income families caused by unaffordable utility bills are known to be severe.

The outcomes of these policies for low-income consumers are clear:

- Certain consumers face higher utility bills than the regulated utilities' SOS for electricity and gas supply.
- They are at greater risk of nonpayment of utility bills and utility service termination notices.
- There is a decreased effectiveness of limited energy assistance dollars in reducing high energy costs.
- Third-party suppliers are incentivized to charge high rates because they no longer bear the risk of nonpayment—a phenomenon known in economics as "moral hazard."
- The already-severe economic stresses faced by low-income families are intensified by high energy bills, thereby magnifying the damage to low-income families (e.g., ill health, homelessness, loss of productivity). Maryland also incurs substantial costs in the form of added emergency room visits, shelter for the homeless, and other economic and social losses.

Recommendations

1. The Public Service Commission (PSC) should be required to annually collect and report actual bill-level data for consumers by zip code level. These data would reveal the scope of overpayments if they continue to exist, or estimate customer savings, if any, and would verify whether they disproportionately affect low-income households as our data and analyses from other states suggest.

2. Residential customers who want third-party supply should ***only*** be served by some form of aggregated supply that would ensure lower costs. We are not recommending the end of third-party supply for the residential sector but are advocating for the end of marketing to and contracting with households for third-party supply on an individual basis with a very restricted exception of 100 percent renewable energy procurement (see p. 28). There are tested approaches to such aggregated contracts. For example, Ohio and Delaware have such programs that guarantee savings to low-income households.

3. A comprehensive program that uses the competitive supply market to ensure lower costs for all low-income households getting assistance should be put into place. All other households, including non-low-income households, should be allowed to opt-in to such programs, if they choose.

4. Variable rate contracts should not be permitted for residential customers.

5. Consumers should be allowed to terminate third-party energy supply contracts without early termination fees.

6. For consumers who choose third-party supply, utility bills should prominently display that the customer saved Y dollars or paid X dollars extra for that month by being on third-party supply.

7. Some marketing practices to low-income households in Baltimore appear to be similar to those condemned by the PSC in 2014. We strongly recommend that the PSC initiate a broad and thorough investigation into marketing practices affecting low-income households and also more actively enforce current regulations.

Unlike many issues facing the state, improving consumer outcomes quickly and effectively seems a realistic goal. Maryland has many good models to study and consider, and we offer a list of common-sense reforms to dramatically improve a marketplace that is currently not functioning to the benefit of Maryland households, especially low-income residents.

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[i] Maryland Electric Restructuring Act 1999, 20.

[ii] We use the word "dysfunctional" in the sense that price-based competition, with transparency in the market, should—in theory—produce lower prices. In the present case, it does for commercial customers on the whole, but not for residential customers.