

# **BGE slows rise in rate**

## **47% jump in June is less than expected**

**By Paul Adams, Sun Reporter**

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Electricity bills for customers of Baltimore Gas and Electric Co. are projected to rise by a less-than-expected 47 percent - or about \$550 for the year - starting in June, based on bids the utility received from wholesale energy suppliers this week.

The latest projections reflect a nearly yearlong decline in wholesale energy prices that will trim the size of a 72 percent rate increase that was supposed to take effect last summer. Lawmakers temporarily capped the rate rise at 15 percent in response to consumer anger over the increase, which came after customers enjoyed six years of rates capped at below 1993 levels.

But the legislative rate holiday ends in June, forcing BGE customers to start paying full market rates or choose to take part in a new deferral plan that has yet to be considered by the state Public Service Commission. The estimated average increase of 47 percent will come on top of the 15 percent rate increase customers saw starting last summer.

At a public hearing yesterday, PSC staff said the new rates projected for June represent an improvement over the 72 percent increase that stunned consumers and sparked a political outcry last year. With the recent decline in wholesale energy prices, BGE customers will be paying an estimated 65 percent more for power than they did before rate caps expired July 1.

But consumer advocates and some lawmakers say that this year's cheaper wholesale power prices will do little to soothe consumer fears or stem a backlash against deregulation in [Annapolis](#). Critics complain that deregulation subjects consumers to the vagaries of the sometimes volatile wholesale energy market, which is where BGE and other investor-owned utilities must go to purchase their power supplies. Wholesale bids solicited by BGE on Tuesday resulted in the latest rate projections.

"The risk to customers has always been volatility," said Theresa Czarski of the Maryland Office of the People's Counsel, which represents utility consumers. "Volatility can be up and it can be down, and in this kind of market sometimes when you go to bid at the right time under the right circumstances, you get better prices. But in the next round - if this continues next year - there's no guarantee you're going to get good prices."

Utility officials and regulators attribute last year's rate increase to soaring prices for natural gas, coal and oil burned to produce electricity, as well as the sudden expiration of rate caps that had been in place for many years. Warm weather and stronger-than-expected supplies have led to a drop in the price of oil and natural gas in recent months, but prices remain significantly higher than in 1999 when deregulation legislation was passed.

"The recent downward trend in wholesale natural gas and electricity prices is encouraging news and means the electricity increase will be lower than anticipated last year," said Kenneth W. DeFontes Jr., president and chief executive officer of BGE.

Legislation passed last summer to deal with the projected 72 percent rate increase ordered the PSC to come up with a second deferral plan to help consumers make the transition to higher rates expected in June. BGE said yesterday that it will propose a plan that would allow its 1.1 million residential customers to move directly to market rates beginning June 1 or delay the move to full market rates until January of next year.

Customers who choose the optional phase-in would get a roughly 20 percent rate increase in June, followed by another 20 percent increase in January. The utility will file the plan with the PSC next week.

"The experience of other utilities in the region strongly suggests that most of our customers will opt to pay the full 2007 increase and transition to market rates in a single step on June 1, but we recognize this may not be the best option for all," DeFontes said.

The latest prices reflect the fickle nature of the wholesale energy market, which has been buffeted in the past year by hurricanes, war and global competition for energy supplies.

As part of the move to deregulation, BGE and other investor-owned utilities in Maryland gave up ownership of their power plants. Deregulation rules require them to buy power from wholesale energy suppliers through a bidding process overseen by the PSC.

Last winter, BGE went into the market for its entire power supply at what many described as the worst possible time. Energy markets were roiled by hurricanes Katrina and Rita, which damaged natural gas and oil production in the Gulf and sent prices soaring. At the same time, surging economies in India and China stressed world energy markets. It all added up to a 72 percent rate increase for BGE customers.

"Last year was the perfect storm," said Skip Trimble, a senior energy consultant at South River Consulting in Baltimore. But conditions have changed drastically in the months since then, Trimble said.

"You have an excess of natural gas, you have oil prices that are dropping like a lead balloon and you have a more subdued economic engine throughout the world," he said.

The spot price for electricity - which serves as an indicator for the direction of wholesale electric prices - fell by an average of 15 percent in the BGE zone since the last time the utility bought power.

Against that backdrop, BGE went into the market Tuesday to secure about half of its energy supply for the coming year, locking in prices more favorable than last year's. The other half of the utility's supply remains locked in at last year's prices. Those more expensive contracts will expire over the next two years.

Under the new prices, BGE will charge its residential customers a slightly lower electricity rate than the one facing Pepco. Pepco customers have already transitioned to

market rates and will see a 4 percent rate increase - or about \$46 for the year - starting in June. Delmarva Power customers will see a 1 percent increase, or roughly \$6 per year, based on bids received Tuesday.

Tuesday was the first of two rounds of bidding that will determine what BGE, Pepco and Delmarva customers will pay for power this summer. A second round will be held next month. The estimated rates discussed by PSC staff at yesterday's hearing were based on the assumption that future bids will come in at about the same price.

The hearing was held to allow PSC commissioners to review the bidding process and determine whether the prices received were acceptable in light of market conditions. The four-member panel took no action to cancel the bids after the hearing, which means they will take effect as expected. PSC regulations allow commissioners to throw out bids if they are thought to be wildly out of synch with the market.

The latest news on rates will likely be viewed in the prism of efforts to reconsider many aspects of deregulation.

Legislation to deal with last year's 72 percent rate rise ordered the commission to study deregulation and consider a range of options to prevent future rate swings - including the possibility of allowing utilities to own regulated power plants again. The commission held hearings last fall and delivered a report to lawmakers last month on their progress, but has yet to issue an order calling for a major overhaul of the system.

Those efforts might be stymied by Gov. Martin O'Malley, who pledged during his campaign to fire the commission over its handling of last year's rate increase. If O'Malley doesn't do it, some lawmakers say, the General Assembly will.

"It's pretty much a done deal as far as the decision that the commission has to go on its own or be removed by legal or legislative action," said Sen. Thomas M. Middleton, a Charles County Democrat and chairman of the Finance Committee.

At the same time, Middleton said, lawmakers are already considering legislation to roll back deregulation this year.

"I think very clearly the mood of the legislature now is that deregulation has not served the residential consumer wisely," he said.

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## **At a glance**

Dissecting the 47 percent rise in electricity costs:

- Customers' electricity bills rose by 15 percent last year after lawmakers temporarily stalled a 72 percent increase that emerged after rate caps expired.
- The 2007 figure includes the deferred portion of last year's 72 percent increase in power costs that customers start paying for in June.
- The 47 percent also reflects this year's lower energy costs due to falling natural gas and oil prices.

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