



effective June 1, 2008 with a term of 2 years), and the remaining 50% of the SOS shall be bid in January 2008 (contracts to be effective June 1, 2008, also with a 2-year term). As a result, BGE will bid 9 blocks in the October 2007 auction, Pepco will bid 3 blocks in the October 2007 auction, and Delmarva will bid 1 block in the October 2007 auction. The Commission modifies Allegheny Power's proposed bid plan and directs Allegheny to bid 50% of the 56 MW block Type I commercial customer load in the October auction (*i.e.*, one 28 MW block) with a contract period of 2 years, and the remaining 28 MW block to be bid in a January auction with a contract period of 2 years.

### **Background**

On August 28, 2006, the Commission issued Order No. 81019 in Case No. 9056, an Order that revised the procurement program for SOS for Type II commercial customers.<sup>1</sup> On November 8, 2006, Order No. 81102 in Case No. 9064 established, *inter alia*, a procurement program for SOS for Residential and Type I commercial customers. The program applies to the investor-owned electric public service companies for the provision of SOS beginning June 1, 2007.<sup>2</sup>

The Commission Staff filed the results of the 2007 procurement improvement process in a report dated July 25, 2007, and the Commission approved the proposed procurement improvements in Order No. 81603, issued September 11, 2007. Bid plan proposals were filed by Pepco and DPL on September 20, 2007, Allegheny Power on September 21, 2007 and BGE on September 25, 2007. The Office of People's Counsel ("OPC") filed a letter on

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<sup>1</sup> In this Order, the Commission modified the existing SOS framework to require four bidding sessions each year, and thus Type II SOS service is procured on a quarterly basis.

<sup>2</sup> The SOS procurement modifications do not apply to Allegheny Power's Residential SOS until existing rate caps expire.

September 21, 2007 objecting to Pepco's and DPL's plan to combine residential and Type I SOS load, arguing that combining the two class procurements may result in higher SOS prices for residential customers.

On October 2, 2007, Staff filed a letter supporting the DPL/Pepco proposal, but indicated that Staff had concerns regarding the AP proposal to bid all of its Type I load of 56 MW in a single block on one date. Staff indicated that it would hold further discussions with AP on the issue. Staff filed a second letter on October 9, 2007 noting that it had held such additional discussions and offered four possible Type I bid options for AP's load:

|          |      |       |         |                                     |                      |
|----------|------|-------|---------|-------------------------------------|----------------------|
| Option 1 | 100% | 56 MW | 2-years | 1 bid (October)                     | (Company's proposal) |
| Option 2 | 100% | 56 MW | 1-year  | 1 bid (October)                     |                      |
| Option 3 | 50%  | 28 MW | 2-year  | 2 bids (October + January or April) |                      |
| Option 4 | 50%  | 28 MW | 1-year  | 2 bids (October + January or April) |                      |

Staff stated that AP made its initial proposal out of concern that breaking its Type I load into four blocks, as would have occurred if the Company had attempted to bid as ordered in Order No. 81102, would not attract sufficient bidder interest. Staff also pointed out that AP is unable to combine Type I and residential SOS load as DPL and Pepco are doing because AP's residential price freeze does not end until January 1, 2009, six months after power will flow under the new Type I contract. Staff indicated that its preference would be to adopt Option 4, because 28 MW blocks should be sufficient to attract bidder interest, and the one-year term would enable an earlier transition to any new procurement structure the Commission may adopt in Case No. 9117.

At the same time, the Commission initiated Case No. 9117 to consider whether a managed portfolio procurement method would be preferable to the current SOS procurement process program. Testimony received by the Commission in the proceeding, including

Staff's, supports the proposition that increasing the time diversity in going to the market to procure power to serve the SOS load, *i.e.*, more frequent auctions which result in procuring a smaller portion of the SOS load on a given date,<sup>3</sup> and holding the auctions closer to the date on which the power will flow as a result of the auction,<sup>4</sup> whether the procurement method is under the current procurement process or another process, may result in lower and more stable prices.

### **Decision**

Without pre-judging whether the Commission will order any additional changes to the current SOS procurement process in Case No. 9117, the Commission finds that over time the economic principle of time diversity is likely to benefit ratepayers. The Commission identified the lack of time diversity associated with the 2006 SOS auctions as ill-advised and not being in the public interest.<sup>5</sup> Time diversity reduces the risk associated with procurement on any given date, and, therefore, should be built into the procurement process going forward.

Additionally, the Commission believes that the availability of fewer blocks in the upcoming auction may result in more competitive bidding for the blocks up for bid. Accordingly, the Commission modifies the procurement process program for the October 2007 Type I commercial and residential SOS auction and hereby directs BGE, Pepco and DPL to bid 50% of SOS load that otherwise would have been bid at the October auction. Put

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<sup>3</sup> Reply Testimony of Merwin Sands on behalf of Commission Staff dated September 28, 2007, p. 9; see also Direct Testimony of William B. Pino on behalf of Baltimore Gas and Electric Company dated September 14, 2007, p. 7.

<sup>4</sup> Reply Testimony of Merwin Sands at p. 2.

<sup>5</sup> See Order No. 81423, *In the Matter of Baltimore Gas and Electric Company's Proposal to Implement a Rate Stabilization Plan pursuant to Section 7-548 of the Public Utility Companies Article and the Commission's Inquiry into Factors Impacting Wholesale Electricity Prices* (May 23, 2007).

another way, BGE shall bid 9-50MW blocks, Pepco shall bid 3 blocks, and DPL shall bid 1 block in the October 2007 auction.

With respect to the Pepco and DPL proposed bid plans, the Commission has considered the comments of Staff, OPC, and Washington Gas Energy Services, and finds no reason to believe that combining residential and Type I bids will lead to higher residential prices than bidding smaller, segregated blocks separately.<sup>6</sup> The Commission therefore will permit Pepco and DPL to bid their Type I and residential loads together, as proposed, consistent with the overall auction plan set forth above. With respect to AP's bid plan, the Commission finds that bidding Option 3 above strikes an appropriate balance between the Company's concerns about an excessively small bid block and the Commission's previously expressed concern about bidding 100% of the available load on a single date.<sup>7</sup> Accordingly, AP's bid plan is approved, with the modification that AP will bid its Type I load in two blocks of 28 MW, with one block to be bid on October 22, 2007, and a second block to be bid in January 2008.

IT IS THEREFORE, this 16th day of October, in the year Two Thousand Seven, by the Public Service Commission,

ORDERED: (1) The procurement program process for 25% of the Type I commercial and Residential customers' SOS load is modified to have 50% of the 25% load be bid in two separate auctions for 2-year contracts, with the first 50% of the SOS load to be bid in the October 22, 2007 auction currently scheduled, and the remaining 50% of the load in an auction to be scheduled in January 2008;

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<sup>6</sup> Case No. 9064, Order No. 81102 at 45.

<sup>7</sup> Case No. 9064, Order No. 81102 at 33.

(2) Subject to the modification made to the procurement process in Paragraph 1 above, the proposed bid plans as filed by Baltimore Gas and Electric Company, Potomac Electric Power Company, and Delmarva Power & Light Company are approved; and,

(3) The proposed bid plan filed by Allegheny Power is modified to provide that a 28 MW block with a 2-year contract for the Type I commercial customers will be bid in the October 22, 2007 auction, and the remaining 28 MW block with a 2-year contract will be bid in a January auction.

By Direction of the Commission,

*/s/ Terry J. Romine*

Terry J. Romine  
Executive Secretary