Fact Sheet:
Fuel Cost, Market Structure and Electricity Prices in Maryland

Rising electricity prices are routinely attributed to increases in fuel prices.[1] However, as shown in this fact sheet, the structure of the electricity market is also a very important factor. Maryland is located in the PJM Interconnection regional transmission organization (RTO), which relies heavily on coal and nuclear power. In 2010, 83.9 percent of power in PJM was provided by coal and nuclear generation, with only 11.7 percent from natural gas and 0.4 percent from oil. In contrast, the marginal unit – which sets the market price – was a natural gas unit 26 percent of the time and an oil unit 4 percent of the time. Maryland is similar to the PJM RTO as a whole: in 2010, coal and nuclear generation accounted for 86.2 percent of the generation in the state. Most of the generating capacity is owned by merchant generators, as the major investor-owned utilities (IOUs) in Maryland sold or divested their generating facilities as part of the implementation of retail choice.

Customers of most Maryland IOUs saw substantial rate increases starting when the IOUs began the transition from capped rates to market-based rates in 2004. In response to the dearth of competitive suppliers entering the market, the Maryland Public Service Commission approved the extension of standard offer service and established an auction process to obtain SOS power from the market. These auction prices led to increased rates for Pepco and Delmarva customers even before the large increases in natural gas prices experienced towards the end of 2005. Then, in July 2006, residential customers of Baltimore Gas & Electric experienced a 72 percent rate increase. This prompted the state legislature to pass a bill in July 2006 (HB1/SB1) that phased-in the rate increase and mandated the Public Service Commission (PSC) to review how standard offer service is obtained. It also instructed the PSC to consider allowing utilities to build peak-load plants as well as to buy power under long-term contracts. The governor's veto of the bill was overridden.

Between 2003 and 2010, average electric rates in Maryland increased by 6.23 cents per kilowatt-hour (kWh) – a near doubling over seven years despite a .40 cent decrease from 2009 to 2010. As shown in the table below, this is in sharp contrast to other states with similar amounts of generation from coal and nuclear resources. In Iowa, where 80 percent of generation is from coal or nuclear facilities, average rates rose by 1.55 cents per kWh between 2003 and 2010. In Missouri, with 91 percent of generation from coal or nuclear units, average rates rose by 1.79 cents per kWh. Retail choice is not offered in either of these states, and the states' utilities still own generating facilities. Rates in Minnesota and Nebraska – non-retail choice states with a similar generation mix to Maryland – also saw average rates increase by smaller amounts than in Maryland.

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[1] For example, in the *Myths & Realities of Competitive Electricity Markets*, the Electric Power Supply Association (EPSA) asserts that "[e] lectricity rates have been rising throughout the country, not only in restructured states. These increases are largely a result of rising costs for the fuel used by generators to produce electricity." http://www.epsa.org/industry/index.cfm?fa=mythsRealities

State Comparisons: Average Revenue per Kilowatt-hour

Source: Energy Information Administration

	% Generated by Coal and Nuclear	Average Revenue per Kilowatt-hour, in cents								2003-2010 Increase	
		2003	2004	2005	2006	2007	2008	2009	2010	Percent	in Cents
Maryland	86.2%	6.45	7.15	8.13	9.95	11.50	13.00	13.08	12.68	96.6%	6.23
Iowa	79.8%	6.11	6.40	6.69	7.01	6.83	6.89	7.37	7.66	25.4%	1.55
Minnesota	77.0%	6.01	6.24	6.61	6.98	7.44	7.79	8.14	8.41	39.9%	2.40
Missouri	91.0%	6.02	6.07	6.13	6.30	6.56	6.84	7.35	7.81	29.7%	1.79
Nebraska	96.1%	5.64	5.70	5.87	6.07	6.28	6.58	7.21	7.48	32.6%	1.84