

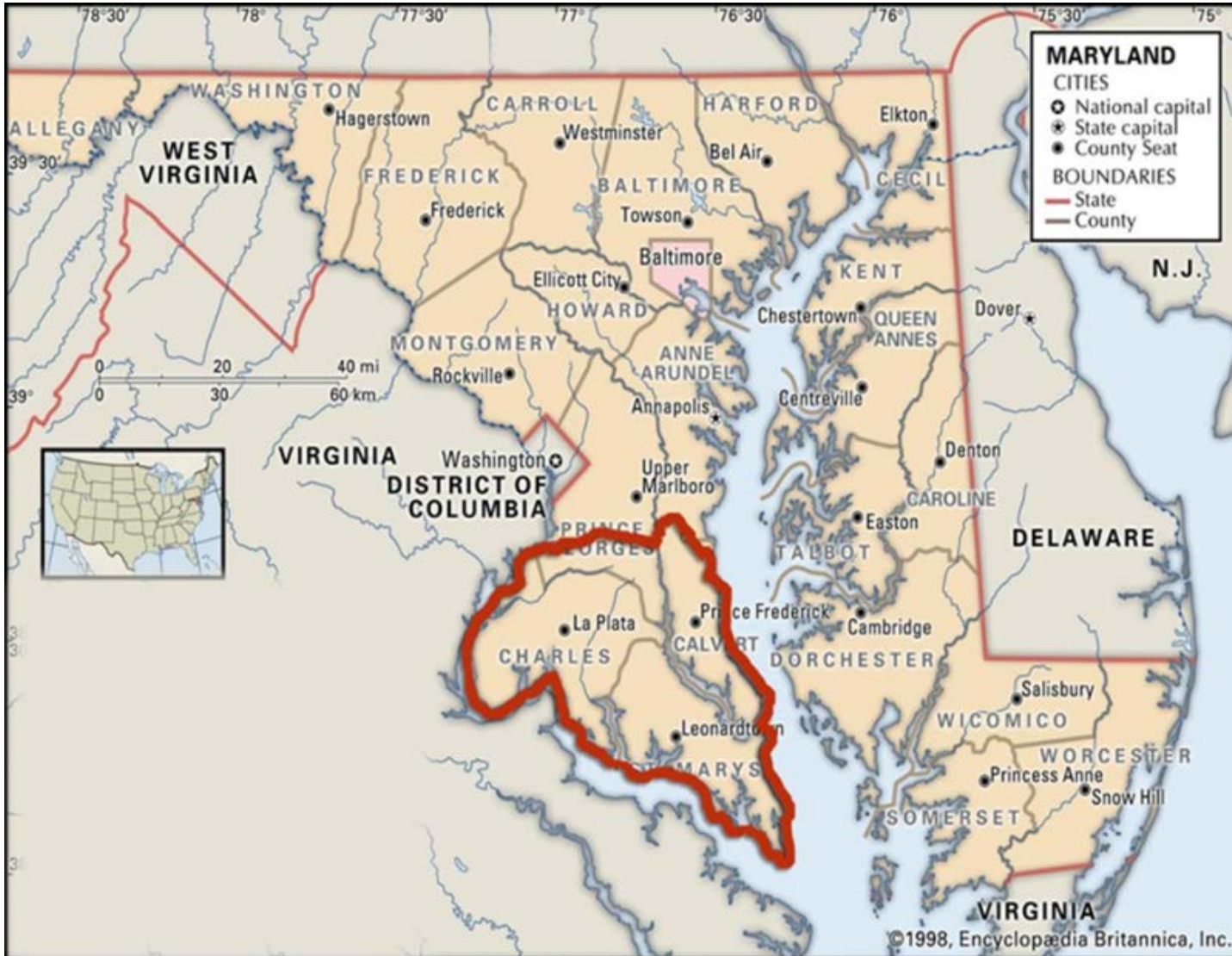


Southern Maryland Electric Cooperative, Inc.

Sonja M. Cox

President & CEO

SMECO Statistics



SMECO Statistics

- Distribution Cooperative
 - Transmission miles – 488
 - 69kV
 - 230kV
 - Distribution miles – 9,952
 - 67 percent underground
 - 17 consumers per mile of distribution line
- Substations and Switching Stations – 71
- 11th largest electric coop – 170,000 members
- 1,150 square miles over four counties
 - Charles County
 - St. Mary's County
 - Most of Calvert County
 - Southern Prince George's County
- Fully Regulated by the Maryland Public Service Commission

SMECO Statistics

- Member of PJM
- Member of ACES Power Marketing
 - Portfolio of energy and capacity products
 - Base and intermediate load contracts
 - Peaking products
 - Options
 - Weather derivatives
 - Renewables
 - SMECO Solar LLC
 - 5.5 MW solar facility with all output and renewable energy credits sold to SMECO
- Interconnections with Pepco (Exelon) System
 - Three at 230 kV
 - Four at 69 kV

Retail Choice in Maryland

- Electric Customer Choice and Competition Act and Electric and Gas Utility Tax Reform Act
 - Enacted in 1999
 - Allows customers residing in Maryland to select their electric energy supplier
 - Required electric cooperatives to offer this choice on or before July 1, 2003
 - SMECO elected to begin offering customer choice in 2001.
 - SMECO provides “standard offer service” (SOS) for those who do not select an alternative supplier
 - As Provider of Last Resort (POLR) or SOS, the utility is not allowed to “market,” promote or advertise that their prices are lower than the retail suppliers
 - Communications must be informational only

Retail Choice in Maryland

- Utilities in Maryland were incentivized to divest of their generation assets
 - Allowed to recover costs of stranded assets
- SMECO had to buy out of a long term power supply full requirements contract
 - Allowed to recover as stranded costs using a bill rider called a Competitive Transition Charge (CTC)
- SMECO became a member of ACES Power Marketing to meet future power supply needs
- Negotiated Edison Electric Institute (EEI) and International Swaps and Derivatives Association (ISDA) master agreements with a number of power supply counterparties
 - Unsecured credit lines
 - Margining requirements

Retail Choice in Maryland

- Determined the risk tolerance of SMECO's Board of Directors
- Developed a power supply hedge plan consistent with the Board's risk tolerance, taking into account the possibility of customer switching
- Established trading and credit policies
- Received legislative and regulatory approvals to create and manage a diversified portfolio as established by SMECO's Board
- The PSC reviews SMECO's power supply costs on an annual basis as part of our Power Cost Adjustment factor review
 - Costs must be prudent and verifiable

Retail Choice in Maryland

- The PSC has a website that customers can use to shop for a supplier
- Retail suppliers must be licensed by the PSC
- Must register to serve in the utilities' service territory on the PSC website and must apply with the distribution utility
 - Testing of Electronic Data Interchange (EDI) transactions between the utility and the supplier
- The supplier cannot
 - Switch service without customer consent – but it happens
 - Cannot state that they work for the utility – but it happens
 - Use deceptive marketing – but it happens
- Although not regulated by the PSC, suppliers can be fined for violating the rules

Observations

- Costs of retail choice to SMECO
 - Customization of billing system
 - Contractor costs for billing system changes
 - Supplier Support Website
 - EDI Service Bureau – for electronic transfer of data between suppliers and SMECO
 - Any changes to the retail choice regulations (i.e. Expedited switching, seamless moves, instant connects, electronic customer account lookup, etc.) incur additional costs
- To date - \$5.9 million of added costs incurred
 - Paid by all SMECO members – not including stranded costs

Observations

- SMECO is required to purchase receivables from the supplier at no discount
- As of September 24, 2021, SMECO has 5,057 members who receive the commodity from an alternate supplier (~ 2.9 percent of total membership)
 - Alternative supply customers pay an average of \$3.1 million more per year compared to SMECO's SOS rate
- Our residential power supply rates are lower than the investor owned utilities (IOU) rates
 - IOUs must participate in state-run auction process for their power supply

Observations

- EEI and ISDA agreement negotiations can take several months if not a year or more
 - Negotiate unsecured lines of credit with counterparties
 - Contracts are “marked-to-market” which may require posting of letters of credit by either counterparty
- The state is always looking for ways to increase and facilitate customer switching
- The retail providers are not regulated, but MD legislators are applying more scrutiny on their prices, slamming, targeted advertising and protecting low income customers.
- Retail suppliers are very active politically and legislatively



Questions?