

## Be Careful What You Ask For...

---

July 9, 2001

The brave new world of electric commodity procurement is cold and unforgiving. It will deliver exactly what you order and charge you exactly as specified in the contract. Rare will be the commodity electric supplier that will permit changes in contract terms or cancellation of orders without any penalties once the contract is executed. Herein, lies a great risk. Be sure you know what you are asking for when placing the order and how your contract will perform in various market scenarios. Sounds simple, but if you are unfamiliar with these markets mistakes and misunderstandings are easier than you may think.

Apparently, a handful of BGE's large commercial and industrial, i.e., Schedule P, customers will experience the deregulated electric market firsthand this month, and by all appearances not by choice, nor, likely, to their benefit. Electric prices rose steadily through last fall and during the winter, although nothing near what has been experienced in the West. While prices have since declined, they remain at levels above comparable BGE Price Freeze Service (PFS) rates. It is difficult to imagine why someone would choose to pay more in the market when they could pay less with BGE. These few unfortunate customers probably didn't "choose" to leave BGE at this time. When it was time to "choose" a 1 or 2 year PFS rate last year they selected a 1 year rate believing they could return to BGE for another year if the market was unfavorable, or they were simply not fully aware of the impact of the "choice" that they made. Surprise! They probably didn't read the fine print carefully. Nevertheless, they were held to their choices.

What greeted these customers was an unfavorable electric pricing environment, few suppliers willing to offer meaningful pricing choices, and no way back to the old BGE rates. Generally, these customers were faced with a choice between multi-year fixed pricing contracts that effectively raised the delivered price of energy between 20% - 35% for the term of agreements, or with short-term or spot market contracts that left customers exposed to potentially wildly fluctuating electric prices, especially during the Summer.

The rest of the Large Commercial and Industrial customers (Schedule P) will have to join these unwilling pioneers this time next year when the PFS rates expire. For now these, and perhaps a few others who elected to be in the open market, are the only ones in the BGE service territory to be in the market. These choices are probably the first illustration of the cold hard facts of commodity procurement: you get exactly what you contract for, so be careful what you sign. There is no recourse once you execute the contract, so know what you want and understand market conditions and characteristics.

Good luck exploring the new electric market.