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Think Tank Releases ‘Electricity Primer’
Paper reviews Maryland’s 1999 electricity deregulation,
2006 BGE rate hike controversy

ROCKVILLE, MARYLAND—With Maryland Governor Martin O’Malley and former governor Robert Ehrlich Jr. poised for a gubernatorial rematch, the Maryland Public Policy Institute has released a new paper examining a central issue in their 2006 election battle: the state’s electricity deregulation.

“The Maryland Electricity Market — A Primer,” by Maryland Public Policy Institute senior fellow Thomas Firey, reviews in detail the 1999 decision to deregulate electricity generation in Maryland and the 2006 political response to news that Baltimore Gas and Electric planned to raise rates 72 percent. The primer also describes the history of electricity regulation and the economics of both regulation and deregulation. The paper concludes with suggestions to state policymakers about future electricity policy.

When deregulation passed in 1999, some state lawmakers who voted for it conceded that they didn’t understand parts of the legislation and the policy choices it contained. The primer is intended to help Marylanders understand the policy choices of both regulation and deregulation. “They’ll learn that neither policy is a ‘magic bullet’ that delivers guaranteed low prices, but that each brings a mixture of costs and benefits,” Firey said. “Some consumers benefit from regulation and others from deregulation.”

To underscore his point, Firey noted that few Maryland homeowners actively shop between electricity providers, but the majority of businesses — including most large industrial and commercial users — do.

Concerning the 2006 battle between O’Malley and Ehrlich, the paper questions why deregulation became a contentious campaign issue. Neither Ehrlich nor O’Malley was in Annapolis in 1999 when deregulation was adopted. O’Malley filed suit to block Ehrlich’s policy response to the BGE rate hike, but O’Malley’s political allies in the General Assembly then adopted a more muscular version of the same policy — and Ehrlich vetoed it. Finally, Maryland electricity policy under O’Malley is little different than under Ehrlich.

Firey notes that controversy over electricity deregulation has calmed in recent years as wholesale electricity prices have fallen, following a decline in generator fuel prices. “But it’s still important for Marylanders to understand and participate in electricity policy discussions, because Annapolis continues to dabble in electricity policy,” he said. “And that dabbling seems to be more about handing out corporate welfare to energy companies than about benefiting the public.”

The Maryland Public Policy Institute is a nonpartisan, nonprofit 501(c)(3) public policy research organization based in Rockville, Maryland. Its work can be found on the web at www.mdpolicy.org.

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