Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

Senate Bill 734 (Senator Pipkin, *et al.*)
Finance

Public Service Commission - Electric Companies - Long-Range Plans

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This bill requires each electric company to develop a long-range plan regarding the electric company's electricity needs and the means to meet those needs and submit the plan to the Public Service Commission (PSC) every two years, or as often as PSC requires. PSC must evaluate the long-range plans and upon completion, must issue orders as appropriate to each electric company to implement a plan. Each order must include a schedule for plan implementation and a requirement that the electric company report on the status of plan implementation. The bill outlines items that an electric company must consider in developing a plan and that PSC must consider in developing an order.

PSC must, by regulation or order, adopt procedures to implement the bill.

Fiscal Summary

State Effect: Special fund expenditures from the Public Utility Regulation Fund may increase in FY 2013 and every two years thereafter for PSC to evaluate and issue orders on electric companies' plans for new generation. Any increase in expenditures depends on plans for new generation submitted by electric companies. No effect on revenues.

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: An electric company in developing a plan, and PSC in developing an order, must consider (1) for a new generation facility, the appropriate fuel or type of renewable energy source; (2) in addition to existing energy efficiency goals, the need to deploy energy efficiency, conservation, and demand response programs; (3) in consideration of renewable energy portfolio standards (RPS), the appropriate electricity supply mix for the State; (4) the potential impact on rates and charges paid by customers; (5) the potential impact on the services and conditions of the operation of the electric company; and (6) any other issues PSC considers relevant to the public interest, convenience, and necessity.

Current Law:

10-year Plans of Electric Companies

PSC is required to prepare and forward a 10-year plan to the Secretary of Natural Resources on an annual basis. The 10-year plan is a compilation of information on long-range plans of electric companies in the State. In the 10-year plan, PSC must include information on possible and proposed sites, including the associated transmission routes, for the construction of electric plants in the State. PSC must also include information in the 10-year plan on current and projected efforts by electric companies and PSC to moderate overall electric generation demand and peak demand through electric companies' promotion of energy conservation by customers and through the electric companies' use of alternative energy sources, including transmission congestion.

Energy Efficiency and Conservation

Under State law, subject to review and approval by PSC, gas and electric companies are required to develop and implement programs and services to encourage and promote the efficient use and conservation of energy by consumers, gas companies, and electric companies. Under the EmPOWER Maryland Energy Efficiency Act of 2008 (Chapter 131) each electric company must implement a cost-effective demand response program in the electric company's service territory that is designed to achieve a targeted reduction of at least 5% by the end of 2011, 10% by the end of 2013, and 15% by the end of 2015, in per capita peak demand of electricity consumed in the electric company's service territory during 2007. Each electric company must also procure or provide for its electricity customers cost-effective energy efficiency and conservation programs and services, to the extent determined to be available, with projected and verifiable electricity savings that are designed to achieve a targeted reduction of at least 5% by the end of 2011 and 10% by the end of 2015 of per capita electricity consumed in the electric company's service territory during 2007. The Act requires electric companies, by September 1, 2008, and every three years thereafter, to submit plans to PSC detailing the electric companies' proposals for achieving the electricity savings and demand reduction targets for the three subsequent calendar years.

PSC Authority to Order Long-term Contracts or Construction of New Generation

Prior to electric industry restructuring in 1999, PSC was responsible for integrated resource planning, including ordering construction of additional generating facilities. Since deregulation, development of generating facilities in the State is done privately. Generating stations are allowed to be constructed by private entities, for-profit, and are allowed to charge market-based rates (not regulated by PSC).

In order to meet the long-term anticipated demand in the State for standard offer service and other electricity supply, PSC may require or allow an investor-owned electric company to construct, acquire or lease, and operate its own generating facilities and transmission facilities necessary to interconnect the generating facilities with the electric grid, subject to appropriate cost recovery.

Background:

Long-term Electric Supply Report

To assess future electric energy use requirements, Executive Order 01.01.2010.16 requires the Department of Natural Resources' (DNR) Power Plant Assessment Program to prepare a long-term electricity report for the State by December 1, 2011; this report will be updated every five years. The report must analyze electric energy use and peak electric demand forecasts, including existing and planned generation and demand response capacity in the State; demand related to the transition to an electricity-based transportation system; existing transmission system in the PJM region and any planned improvements and expansions; and the extent to which the State's power supply requirements over the 20-year analysis period exceed the capacity of existing and planned generation resources.

The report must examine alternative sources of electric capacity to address any gaps between supply requirements and the capabilities of existing and planned electric generation and transmission system resources. In examining sources, the report must consider the costs of generation, reliability of supply, adverse environmental impacts, conventional and renewable generation capacity additions, options for fuel-switching, energy conservation and energy efficiency, demand response, smart grid technologies, energy storage technologies, and transmission system congestion and expansion. In preparing the report, DNR must consider input from a variety of interests including representatives of government, electric and gas companies and suppliers, consumer advocates, and environmental groups. DNR must hold public meetings to review its findings.

Procurement of New Electric Generation in the State

In December 2010, PSC issued a draft RFP to solicit offers from persons seeking to construct new generating facilities in or around the State. In the draft RFP, respondents may offer energy from any generation capacity resources, not to exceed 1,800 megawatts (MW) on an installed capacity basis. PSC may award one or more contracts to one or more suppliers from new generation and may direct one or more electric companies to construct new generation up to 1,800 MW; however, PSC reserves the right to reject all submissions if proposals are not cost-effective. The draft RFP is the result of Case Number 9214, which was initiated in September 2009 for PSC to investigate whether it should exercise its authority to order electric companies to enter into long-term contracts to attract new generation or to construct, acquire, or lease and operate new generation facilities in the State.

Renewable Energy Portfolio Standards

Maryland's RPS requires that renewable sources generate specified percentages of the State's electricity supply each year, increasing to 20%, including 2% from solar power, by 2022. Electricity suppliers must accumulate "renewable energy credits" (RECs) equal to the percentage mandated by statute each year, or pay an alternative compliance payment (ACP) equivalent to the supplier's shortfall. RECs are classified as Tier 1, Tier 2, or solar RECs. Tier 1 sources include solar; wind; qualifying biomass; methane from anaerobic decomposition of organic materials in a landfill or wastewater treatment plant; geothermal; ocean, including energy from waves, tides, currents, and thermal differences; a fuel cell that produces electricity from a Tier 1 renewable source; a small hydroelectric plant of less than 30 megawatts; and poultry litter-to-energy. Tier 2 sources include hydroelectric and waste-to-energy.

State Fiscal Effect: PSC currently (1) reviews the 10-year plans of each electric company; (2) evaluates conservation and energy efficiency programs of each electric company in the context of EmPOWER Maryland goals; and (3) reviews each electric company's compliance with State RPS. As advised by PSC, the additional responsibilities required under the bill can be handled with existing budgeted resources.

Legislative Services agrees that PSC can generally handle the requirements of the bill with existing budgeted resources; however, additional costs may be incurred depending on the long-term plans submitted by electric companies. If the review of electric company plans requires PSC to consider ordering construction of new generation and awarding a long-term power purchase agreement for new generation (as allowed under current law), additional costs will be required for economic analysis. If the review by PSC is limited to approving each electric company's plans to meet new demand, the bill can be handled with existing budged resources. PSC is currently considering ordering construction of new generating facilities based on *statewide* electricity needs. The bill requires PSC to consider new generation on a *per utility* basis.

Additional Information

Prior Introductions: None.

Cross File: None.

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Analysis by: Erik P. Timme

Direct Inquiries to:
(410) 946-5510
(301) 970-5510