SB 826

Department of Legislative Services

Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 826 (Senator Astle)
Finance

Energy Efficiency Programs - Transferring Development to the Maryland Energy Administration

This bill transfers the development of programs to encourage and promote efficient use and conservation of energy in the State from public service companies to the Maryland Energy Administration (MEA), which also must oversee the programs.

Fiscal Summary

State Effect: Special fund revenues and expenditures for MEA increase by approximately $198.0 million in FY 2016, escalating to $264.4 million by FY 2020, under the assumptions discussed below. Of that amount, $3.0 million in FY 2016, escalating to $4.4 million by FY 2020, is for MEA staff and administrative expenditures. The remaining revenue and expenditures reflect funding necessary to continue the programs as they currently exist. The Public Service Commission (PSC) can implement the bill with existing resources.

($ in millions)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
SF Revenue	$198.0	$263.9	$264.1	$264.2	$264.4
SF Expenditure	$198.0	$263.9	$264.1	$264.2	$264.4
Net Effect	$0	$0	$0	$0	$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Meaningful for local governments that own and operate electric companies required to implement energy efficiency and energy conservation programs to the extent that they do not already do so.

Small Business Effect: Minimal.

Analysis

Bill Summary: PSC must (1) require MEA to establish any program or service that PSC deems appropriate and cost effective to encourage and promote the efficient use and conservation of energy and (2) establish a customer charge that will fully fund the establishment of the programs by MEA. PSC must also require MEA to *procure* or provide cost-effective energy efficiency and conservation (EEC) programs and *implement* a cost-effective demand-response (DR) program in each electric company's service territory.

The bill makes other conforming changes to transfer the responsibility for the development of the programs from public service companies to MEA.

Current Law: Subject to review and approval by PSC, each gas company and electric company (*not* MEA) is 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. Similarly, PSC must:

- require each gas company and electric company (*not* MEA) to establish any program or service that PSC deems appropriate and cost effective to encourage and promote the efficient use and conservation of energy;

- adopt rate-making policies that provide cost recovery and, in appropriate circumstances, reasonable financial incentives for gas companies and electric companies to establish programs and services that encourage and promote the efficient use and conservation of energy; and

- ensure that adoption of electric customer choice does not adversely impact the continuation of cost-effective energy conservation and efficiency programs.

These requirements existed before the General Assembly passed Chapter 131 of 2008 (the EmPOWER Maryland Energy Efficiency Act). The Act established targeted reductions in per capita energy consumption and demand by 2015 from a 2007 baseline.

Background:

EmPOWER Maryland

The State's largest electric companies participate in the EmPOWER Program: Baltimore Gas and Electric (BGE), Delmarva Power and Light (DPL), Potomac Electric Power Company (Pepco), Potomac Edison (PE), and the Southern Maryland Electric Cooperative (SMECO). PSC sets individual goals for each electric company.

As mandated by Chapter 131, electric companies are responsible for a 10% reduction in per capita energy consumption and a 15% reduction in per capita peak demand by 2015. MEA is responsible for an additional 5% reduction in per capita energy consumption. The program is on track to meet the per capita peak demand goal (14.7% out of 15% in 2013) but substantial progress is necessary to meet the per capita electricity consumption goal (9.7% out of 15% in 2013).

As of the end of 2013, the electric companies had spent more than $988 million across all EmPOWER programs, saving a total of 3.3 million megawatt-hours and 1,538 megawatts. The electric companies are authorized to collect a surcharge to fund their EmPOWER programs. The average monthly residential surcharges in 2013 are shown in **Exhibit 1**.

Exhibit 1
EmPOWER Average Monthly Residential Surcharges
2013

	Energy Efficiency and Conservation	Demand Response	Dynamic Pricing	Total
BGE	$2.00	$1.02	-	$3.02
Pepco	1.28	0.07	$0.46	1.81
PE	2.44	-	-	2.44
DPL	1.56	1.15	-	2.71
SMECO	3.17	2.30	-	5.47

Source: Public Service Commission

In the context of EmPOWER, DR programs are primarily designed to reduce peak demand, while EEC programs are primarily designed to reduce the total amount of energy consumed.

DR programs commonly use a switch or thermostat to cycle a central air conditioning system or an electric heat pump to briefly curtail usage (*i.e.*, direct load control). By reducing or shutting off hundreds or thousands of air conditioners at the same time, electric companies can reduce their power needs by hundreds of megawatts when the power grid is under stress.

Residential EEC programs include discounted compact fluorescent lights and appliances; heating, ventilation, and air conditioning (HVAC) rebates; home energy audits; weatherization; and low-income programs. Commercial EEC programs are designed to encourage businesses to upgrade to more efficient equipment, such as lighting or HVAC, or improve their building performance through weatherization or building shell upgrades. For larger commercial buildings or industrial facilities, an electric company can customize its incentives for cost-effective improvements.

Planning for Next EmPOWER Maryland Cycle

Since calendar 2013, MEA and PSC have undertaken activities to move toward the next phase of EmPOWER Maryland, the period after the initial goal. In calendar 2014, MEA continued with workgroup processes and study activities that began in calendar 2013. In August 2014, MEA submitted the final products of some of these activities, including an avoided cost study and cost effectiveness framework, to PSC.

As part of its December 2014 order to approve the 2015-2017 utility programs, PSC directed that PSC staff, on behalf of the EmPOWER Planning Workgroup, file a report and recommendations related to the MEA proposal to implement performance-based shareholder incentives by April 15, 2015. PSC also ordered that a case be docketed for the investigation and development of energy efficiency financing proposals, with a status report due on April 15, 2015.

The total authorized revenue to be collected in cost recovery over the 2015-2017 EmPOWER cycle is approximately $1.0 billion, $965 million of which is allocated to BGE, Pepco, PE, DPL, and SMECO.

State Fiscal Effect: Under the bill, MEA, rather than electric companies, must procure or provide cost-effective EEC programs and implement a cost-effective DR program in each electric company's service territory. MEA indicates that it requires 42 additional staff to meet these requirements. This estimate is based on staff resources currently required by electric companies, which are substantial. MEA advises that the five major EmPOWER participants current dedicate 65 internal and 230 external/contractual employees to the programs affected by the bill.

PSC must establish a customer charge that will fully fund the establishment of the programs by MEA. Assuming that the surcharge established by PSC is sufficient to continue the current EmPOWER programs and provide for MEA administrative expenditures related to the programs, MEA special fund revenues increase by $198.0 million in fiscal 2016, escalating to $264.4 million by fiscal 2020. Of that amount, $3.0 million in fiscal 2016, escalating to $4.4 million by fiscal 2020, is for MEA staff (42 new positions) and administrative expenditures. The remaining revenue and expenditures reflect funding necessary to continue the programs as they currently exist. These estimates are based on information provided by MEA. PSC can implement the bill with existing resources.

Local Fiscal Effect: There are five municipal electric utilities: the Berlin Municipal Electric Plant, the Easton Utilities Commission, the City of Hagerstown Light Department, the Thurmont Municipal Light Company, and the Williamsport Municipal Electric Light System. These utilities must implement energy efficiency and energy conservation programs, subject to reimbursement by MEA (through revenue collected by a customer charge) under the bill.

Additional Comments: The Department of Legislative Services notes that, although the bill appears to be revenue neutral, ratepayers are required to pay at least the additional administrative expenses of MEA, relative to the amount they are currently paying, for the same programs.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Energy Administration, Public Service Commission, Office of People's Counsel, cities of Frederick and Havre de Grace, Department of Legislative Services

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