SB 899

Department of Legislative Services

Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

Senate Bill 899 (Senator Waugh, *et al.*)
Finance

Offshore Wind - Application for Proposed Project - Evaluation and Approval

This bill requires the Public Service Commission (PSC), when evaluating and comparing proposed offshore wind projects, to use as a criteria the extent to which an applicant's plan directly or indirectly encroaches on existing private, State, federal, or military infrastructure, resources, facilities, ranges, or operating environments. PSC may not approve an application unless, in addition to those requirements specified in current law, the proposed offshore wind project will not impact the physical area or any part of the electromagnetic spectrum in line of sight of (1) the Chesapeake and Atlantic Test Ranges or (2) the Wallops Island Flight Facility.

Fiscal Summary

State Effect: To the extent that the bill precludes the construction and operation of an offshore wind project that would otherwise have been built, State expenditures (all funds) for electricity decrease minimally in FY 2019 and by approximately $2.1 million annually thereafter. State finances and operations are otherwise not materially affected.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues	$0	$0	$0	$0	$0
GF/SF/FF Exp.	0	0	0	(-)	(2,100,000)
Net Effect	$0	$0	$0	$0	$2,100,000

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

Local Effect: To the extent that the bill precludes the construction and operation of an offshore wind project that would otherwise have been built, local government expenditures for electricity decrease minimally in FY 2019 and significantly thereafter.

Small Business Effect: Meaningful. Expenditures by all small businesses for electricity decrease beginning in FY 2019 to the extent that the bill precludes the construction and operation of an offshore wind project that would otherwise have been built. However, small businesses involved in the construction and operation of offshore wind projects are negatively affected.

Analysis

Bill Summary: The Chesapeake and Atlantic Test Ranges are defined vertically and laterally by the Federal Aviation Administration (FAA) as restricted areas R-4002, R-4005, R-4006, R-4007, R-4008, and R-6609 and warning area W-386. The Wallops Island Flight Facility is defined vertically and laterally as restricted area R-6604.

Current Law/Background:

Offshore Wind Project Approval

Chapter 3 of 2013 (the Maryland Offshore Wind Energy Act) requires State electricity sales to include an amount derived from offshore wind energy beginning in 2017. The amount is set by PSC each year based on the projected annual creation of offshore wind renewable energy credits (ORECs) by qualified offshore wind projects and may not exceed 2.5% of total retail sales. (If there are no approved projects, there is no requirement or associated payments). An offshore wind farm of a size consistent with the rate-cost caps in the Act has the potential to produce each year between 5.0% and 8.5% of the renewable energy necessary for compliance with the State's Renewable Energy Portfolio Standard.

PSC must use the following criteria in evaluating a proposed offshore wind energy project:

- lowest cost impact on ratepayers of the price set under a proposed OREC pricing schedule;
- potential reductions in both transmission congestion prices within the State and locational marginal pricing;
- potential changes in capacity prices within the State;
- the extent to which the cost-benefit analysis submitted by the applicant demonstrates positive net economic, environmental, and health benefits to the State;
- the extent to which an applicant's plans for engaging small businesses meets specified goals as established in statute;
- the extent to which an applicant's plan provides for (1) the use of skilled labor; (2) the use of an agreement designed to ensure the use of skilled labor; and (3) compensation to its workers consistent with State prevailing wage laws;
- siting and project feasibility;

- the extent to which the proposed project would require transmission or distribution infrastructure improvements in the State;
- estimated ability to assist in meeting the State's renewable energy goals; and
- any other criteria that PSC determines to be appropriate.

PSC may not approve an application unless (1) the proposed project demonstrates positive net economic, environmental, and health benefits to the State; (2) the projected net rate impact, combined with the rate impact of other qualified projects, does not exceed $1.50 per month for an average residential customer (1,000 kilowatt-hours per month) in 2012 dollars, and does not exceed 1.5% of nonresidential customers' total annual electric bills, over the duration of the proposed OREC pricing schedule; and (3) the price set in the proposed OREC pricing schedule does not exceed $190 per megawatt-hour in 2012 dollars.

In addition, PSC may not approve an application until the Governor's Office of Minority Affairs, in consultation with the Office of the Attorney General (OAG), and the applicant, has established a clear plan for setting minority business goals and related procedures. The Governor's Office of Minority Affairs, in consultation with OAG, must provide assistance to all potential applicants and potential minority investors.

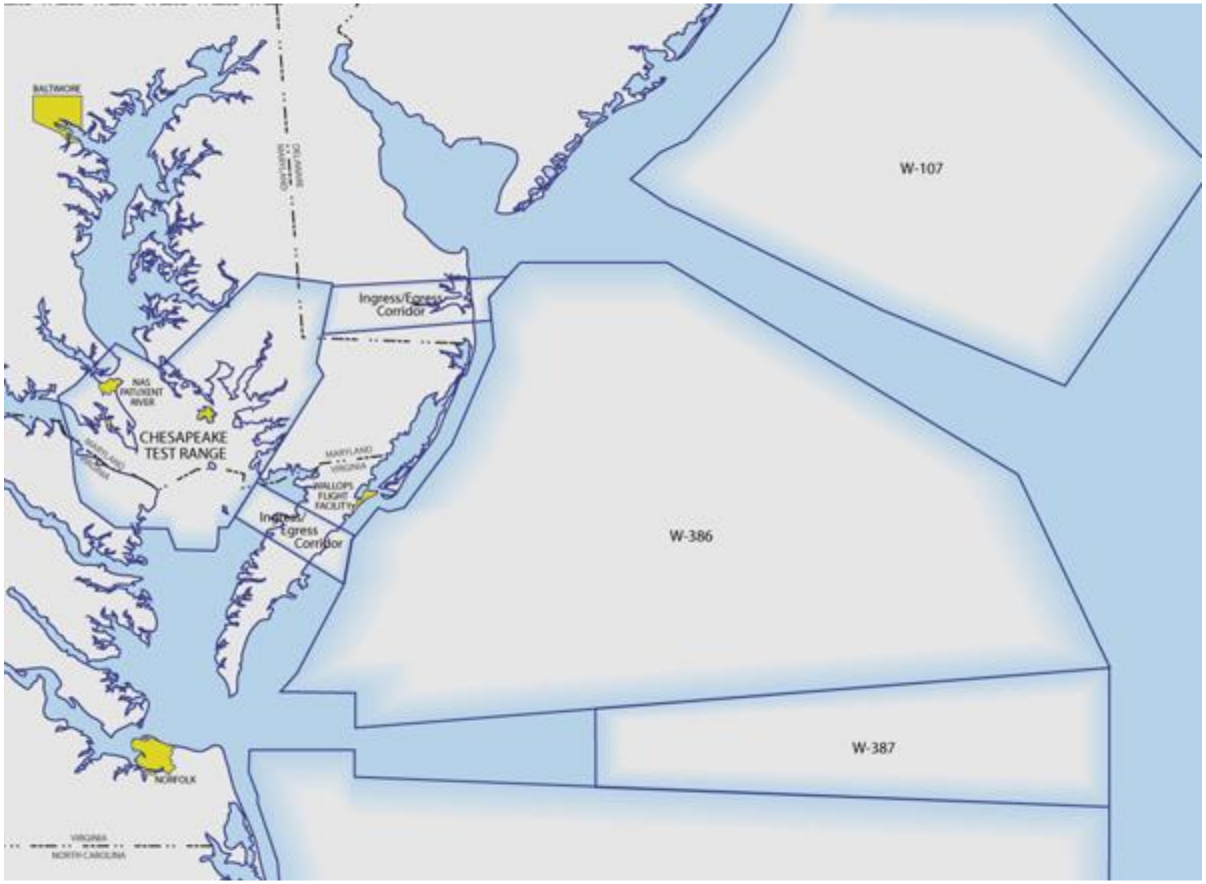
PSC must contract the services of independent consultants and experts when calculating the net benefits to the State and in evaluating and comparing applicants' proposed projects, and PSC must apply the same net OREC cost per megawatt-hour to residential and nonresidential customers.

Test Ranges and Offshore Wind Energy Area

The Chesapeake and Atlantic Test Ranges are shown below in **Exhibit 1**. R-4002 through R-4008 and R-6609 are labeled as "Chesapeake Test Range," and W-386 is the portion of the Atlantic Test Range specified in the bill. The Wallops Island Flight Facility restricted area, R-6604 (which is divided into R-6604A and R-6604B) extends south and east from the facility to the western edge of W-386. Additional information on the test ranges, including additional maps, can be found here.

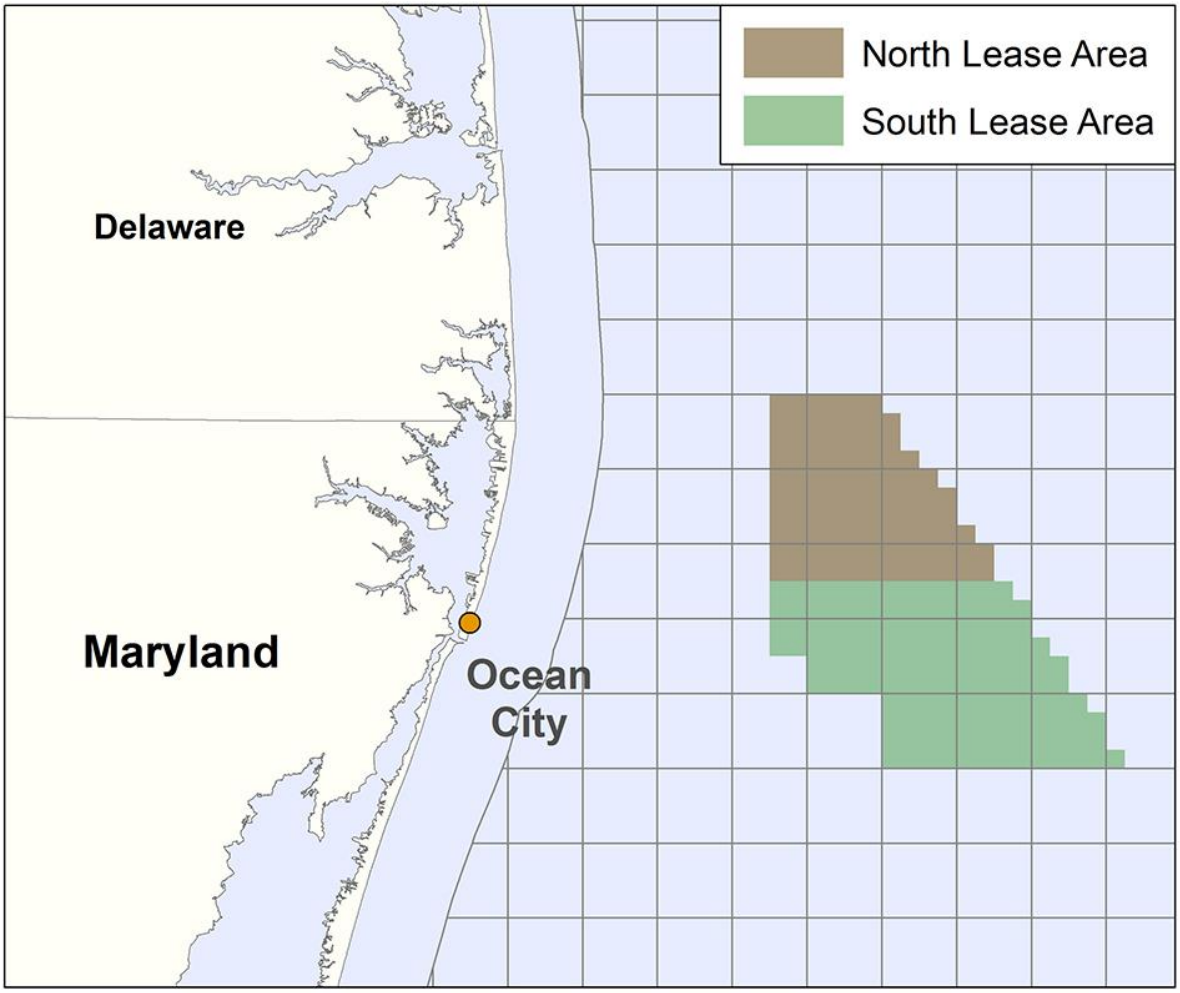
The U.S. Department of Interior Bureau of Ocean Energy Management held a competitive lease sale for the Maryland offshore wind energy area on August 19, 2014. The two lease areas comprising the sale were won by US Wind, Inc. The lease areas are shown in **Exhibit 2**, and appear to be entirely encompassed by warning area W-386.

Exhibit 1
Chesapeake and Atlantic Test Ranges



Source: Naval Air Systems Command

Exhibit 2
Maryland Lease Areas for Offshore Wind Development



Source: U.S. Department of Interior

State Fiscal Effect: In testimony to the Senate Finance Committee in early 2015, the Maryland Energy Administration indicated that the earliest likely offshore wind project could be completed by the spring of 2019 (late fiscal 2019).

The additional evaluation criteria, depending on PSC's interpretation of the bill, could preclude the construction and operation of an offshore wind project that would otherwise have been built in the current Maryland lease area shown in Exhibit 2. To the extent that the bill does so, State expenditures (all funds) for electricity decrease minimally in fiscal 2019 and by approximately $2.1 million annually thereafter, as discussed below.

The incremental cost associated with an offshore wind energy project is absorbed by all electric customers and allocated to different rate classes by PSC. As an electric customer, State agencies and the University System of Maryland (USM) used approximately 1.56 million megawatt-hours of electricity in 2012, at a cost of $138.5 million. A rate increase of 1.5% – the maximum projected increase for commercial customers under the Maryland Offshore Wind Energy Act – would increase electricity expenditures minimally in fiscal 2019 and by $2.1 million annually thereafter across all State agencies and USM. Under the bill, these expenditures may not occur.

State finances and operations are otherwise not materially affected.

Local Fiscal Effect: Counties and municipalities use electricity for street lighting, wastewater treatment plants, office facilities, and recreational facilities. Local school systems are also large consumers of electricity. Thus, to the extent that the bill precludes the construction and operation of an offshore wind project that would otherwise have been built, local government expenditures on electricity decrease minimally in fiscal 2019 and significantly thereafter.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Energy Administration, Public Service Commission, Maryland Department of Transportation, U.S. Department of Interior, Naval Air Systems Command, Department of Legislative Services

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