SB 1043

Department of Legislative Services

Maryland General Assembly
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FISCAL AND POLICY NOTE
First Reader

Senate Bill 1043 (Senator Feldman, *et al.*)
Finance

Renewable Energy Portfolio Standard Requirements - Standard Offer Service

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This bill requires an electric company, beginning in 2018, to contract for renewable energy credits (RECs) and electricity generated from specified renewable sources. The contracts must meet at least 25% of that year's requirement under the State Renewable Energy Portfolio Standard (RPS) for the electricity that the company provides its customers through standard offer service (SOS). An electric company may recover costs associated with this requirement, including lost revenue, in its distribution rates in a base rate case. An electric company is required to contract for renewable energy notwithstanding specified provisions of current law, regulations, or Public Service Commission (PSC) orders. The bill establishes provisions regarding the process an electric company must use to solicit bids and the award and terms of a contract. The bill applies only prospectively.

Fiscal Summary

State Effect: Special fund expenditures for the Public Utility Regulation Fund (PURF) increase by $85,000 annually beginning in FY 2018 for consultant costs for the Office of People's Counsel (OPC) to evaluate contract bids made under the bill. Special fund revenues increase correspondingly from assessments imposed on public service companies. The effect on electric rates paid by units of State government cannot be reliably estimated at this time; however, the overall effect is likely minimal.

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
SF Revenue	$85,000	$85,000	$85,000	$85,000	$85,000
SF Expenditure	$85,000	$85,000	$85,000	$85,000	$85,000
Net Effect	$0	$0	$0	$0	$0

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

Local Effect: While the effect on electric rates paid by local governments cannot be reliably estimated at this time, the overall effect on local governments is likely minimal.

Small Business Effect: Minimal. While the effect on electric rates paid by small businesses cannot be reliably estimated at this time, the overall effect on small businesses is likely minimal. Small businesses with significant electricity needs, such as a small manufacturing business, are more exposed to changes in electric rates.

Analysis

Bill Summary: An electric company must (1) solicit bids for a contract from renewable energy facilities that will be placed into service within three years after the date of the solicitation and (2) use a competitive procurement process to award the contract. The term of a contract must be for at least 10 years but not more than 20 years.

Current Law/Background: The Electric Customer Choice and Competition Act of 1999 (Chapters 3 and 4) facilitated the restructuring of the electric utility industry in Maryland. The resulting system of customer choice allows the customer to purchase electricity from a competitive supplier or to continue receiving electricity under SOS. Default SOS electric service is provided by a customer's *electric company*. Competitive electric supply is provided by competitive *electricity suppliers*. In either case, the electric company delivers the electricity and recovers the costs for delivery through distribution rates.

To provide SOS, electric companies solicit bids for electricity through a series of rolling auctions every six months. At any one time, the SOS rate reflects the average of four separate auctions held over two years, which has a moderating effect on rate changes.

Electric companies are not required to directly contract for RECs and associated electricity to meet RPS requirements. PSC advises that currently, electric companies meet their RPS requirements through their SOS contract bidding, with wholesale electricity suppliers required to meet RPS requirements through their bids for their portion of electricity supplied. Under the current system, SOS customers pay for RECs indirectly through their SOS rates.

Renewable Energy Portfolio Standard

Maryland's RPS was enacted in 2004 to facilitate a gradual transition to renewable sources of energy. It operates on a two-tiered system with carve-outs for solar energy and offshore wind energy and corresponding RECs for each tier. Electric companies (utilities) and other electricity suppliers must submit RECs equal to a percentage specified in statute each year or else pay an alternative compliance payment (ACP) equivalent to their shortfall. Over the past few years, the requirements have been met almost entirely through RECs, with negligible reliance on ACPs. The Maryland Energy Administration must use ACPs to support new renewable energy sources.

Chapters 1 and 2 of 2017 increased the Tier 1 percentage requirements from 20% by 2022 to 25% by 2020. The solar carve-out, which is included in Tier 1, was likewise increased from 2.0% by 2022 to 2.5% by 2020. The Tier 2 requirement remains constant at 2.5% each year until ending after 2018. In 2017, the requirements are 13.1% for Tier 1 renewable sources, including at least 1.15% from solar energy, and 2.5% from Tier 2 renewable sources.

Tier 1 sources include wind (onshore and offshore); 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 specified Tier 1 renewable sources; a small hydroelectric plant of less than 30 megawatts; poultry litter-to-energy; waste-to-energy; refuse-derived fuel; and thermal energy from a thermal biomass system. Tier 1 solar sources include photovoltaic cells and residential solar water-heating systems commissioned in fiscal 2012 or later. Following the transfer of several sources to Tier 1, Tier 2 includes only large hydroelectric power plants.

State Fiscal Effect: Special fund expenditures for PURF increase by $85,000 annually beginning in fiscal 2018 for consultant costs for OPC to evaluate contract bids made under the bill. This estimate assumes one procurement process per year for each electric company and assumes efficiencies are gained from reviewing multiple bids. Special fund revenues increase correspondingly from assessments imposed on public service companies.

The bill requires 25% of SOS to be contracted for under long-term power purchase agreements (PPAs) beginning in 2018. PSC advises that for the 2016 compliance year, a 25% requirement would have required electric companies to directly contract for approximately 900,000 Tier 1 RECs and 900,000 megawatt-hours of electricity.

In 2016, the Tier 1 RPS percentage requirement was 12.7%; however, that amount is set to rapidly increase to 25% by 2020. Therefore, with a fully implemented RPS, holding other factors constant, electric companies must contract for about 1.8 million RECs and 1.8 million megawatt-hours of electricity annually beginning in 2020. For context, that amount is about 2.5% to 3% of total retail electric sales in the State, and is more than twice the amount of energy that was estimated to be supported by the Maryland Offshore Wind Energy Act of 2013.

PPAs lock electric companies into paying set prices over time, typically with some sort of annual price escalator. Generally, these long-term PPAs transfer risk from renewable energy producers to electric companies and create the possibility that ratepayers will pay prices that are higher or lower than the market price of renewable energy during the contract term. The effect on rates in a given future year depends on the price in the contract relative to the prices otherwise available for electricity and RECs in that year. This could be affected by a number of factors, including the price of natural gas, technological change, and changes to State and/or federal law. To be clear, future rates could be higher or lower than they otherwise would have been due to the bill, but the effect cannot be reliably estimated at this time.

Additional Information

Prior Introductions: None.

Cross File: HB 1452 (Delegates Clippinger and B. Barnes) - Economic Matters.

Information Source(s): Maryland Energy Administration; Office of People's Counsel; Public Service Commission; Department of Legislative Services

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