HB 967

Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 967 (Delegate Clippinger, *et al.*)
Economic Matters

Ratepayer Reduction for Renewable Energy Act

This bill requires electric companies, beginning in 2020, 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 each company provides its customers through standard offer service (SOS). Contracts are subject to review and approval by the Public Service Commission (PSC).

Fiscal Summary

State Effect: Special fund expenditures increase by $150,000 in FY 2019 and by $100,000 annually thereafter. Special fund revenues increase correspondingly from assessments imposed on public service companies. PSC can handle the bill's requirements with existing budgeted resources. The effect on State expenditures for electricity cannot be reliably estimated at this time but is likely minimal.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
SF Revenue	$150,000	$100,000	$100,000	$100,000	$100,000
SF Expenditure	$150,000	$100,000	$100,000	$100,000	$100,000
Net Effect	$0	$0	$0	$0	$0

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

Local Effect: The bill does not materially affect local government finances or operations.

Small Business Effect: Minimal, as discussed below.

Analysis

Bill Summary: Beginning in 2020, notwithstanding specified provisions of current law, regulations, or PSC orders, an electric company must contract for RECs and electricity from specified solar, wind, water, and geothermal sources. The length of the contracts must be at least 10 years and may be up to 20 years. An electric company must (1) solicit bids from renewable energy facilities that will be placed into service within 3 years; (2) use a competitive procurement process; and (3) submit a proposed contract to PSC for review and approval. PSC must approve the contract if it finds that the contract is cost-effective as compared to the long-term projection of renewable energy costs.

PSC must adopt regulations to implement the bill by March 31, 2019.

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. Tier 1 sources include wind, geothermal, solar, and several others. Following the transfer of several sources to Tier 1, Tier 2 includes only large hydroelectric power plants. Legislation enacted in 2017 increased the Tier 1 percentage requirements from 20% by 2022 to 25% by 2020. The 2018 requirement is 15.8%, including 1.5% from solar.

Electric companies (utilities) and other electricity suppliers must submit RECs equal to a percentage specified in statute each year or else pay a penalty equivalent to their shortfall. Revenue from the penalties, which historically has been zero or minimal in any given year, accrues to the Strategic Energy Investment Fund and is used by the Maryland Energy Administration to support new Tier 1 renewable energy sources in the State.

State Fiscal Effect: The bill requires 25% of SOS to be contracted for under long-term power purchase agreements (PPAs) beginning in 2020. PSC can draft the required regulations and oversee the ongoing process of renewable energy procurement with existing budgeted resources.

Special fund expenditures for the Office of People's Counsel (OPC) increase by $150,000 in fiscal 2019 for consultant costs associated with the regulations that must be drafted by PSC and by $100,000 annually thereafter for consultant costs for OPC to evaluate SOS contract bids. This estimate assumes one procurement process per year for each electric company and assumes efficiencies are gained from reviewing multiple bids. The actual timing of consultant costs may vary from this estimate. Special fund revenues increase correspondingly from assessments imposed on public service companies.

The effect on State expenditures for electricity cannot be reliably estimated at this time, which is further discussed below, but is likely minimal.

Small Business Effect: 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.

Additional Comments: Based on information provided by PSC, electric companies must likely contract for about 2.5% to 3% of total retail electric sales in the State beginning in 2020.

PPAs lock electric companies into paying set prices over time, typically with some sort of annual price escalator. Generally, these long-term PPAs create the possibility that ratepayers will pay prices that are higher or lower than the market price of other 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 that would have otherwise been paid. 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. REC prices can be especially volatile, an excellent example being the approximately 90% decrease in solar REC prices over the past three years.

To be clear, regardless of the fact that PSC can only approve PPAs under the bill if they appear cost-effective *at the time of approval*, actual future rates could be higher or lower than they otherwise would have been due to the bill. The effect cannot be reliably estimated at this time.

Additional Information

Prior Introductions: SB 1043 of 2017, a similar bill, received a hearing from the Senate Finance Committee, but no further action was taken. Its cross file, HB 1452, received a hearing from the House Economic Matters Committee but was withdrawn.

Cross File: Although designated as a cross file, SB 391 (Senator Feldman, *et al.* – Finance) is not identical.

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

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