Department of Legislative Services

Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 379 (Delegate Charkoudian)
Economic Matters

Public Utilities – Low–Income Housing – Energy Performance Targets

This bill requires the Public Service Commission (PSC) to require the Department of Housing and Community Development (DHCD) to procure or provide energy efficiency and conservation (EE&C) programs and services for electricity customers for the 2021-2023 EmPOWER Maryland Program cycle, subject to specified requirements. The EE&C programs and services must be designed to achieve a target annual incremental gross energy savings of at least 1.0% per year, compared to 2019, starting in 2022. Specified gas company merger proceeds must be used exclusively by DHCD beginning in fiscal 2022 to provide low-income residential weatherization. By December 31, 2021, DHCD must develop a plan on related program funding and coordination. The Green and Healthy Task Force, staffed by DHCD, is established (permanently), with an annual reporting requirement beginning July 2022. **The bill takes effect July 1, 2021.**

Fiscal Summary

State Effect: Special fund revenues for DHCD increase by $26.3 million in FY 2022 from the transfer, as discussed below. Overall special fund expenditures from the Strategic Energy Investment Fund (SEIF) are not affected, but funds are diverted from their original purpose. Special fund expenditures for DHCD increase significantly beginning in FY 2022 to meet the bill's enhanced energy savings requirements – DHCD estimates by $91.0 million annually. In future years, special fund revenues increase by an amount necessary to cover DHCD's annual programmatic costs, net of special funds made available through the bill's required transfer. The effect on electricity prices is discussed separately below.

Small Business Effect: Meaningful.

Analysis

Bill Summary:

Green and Healthy Task Force

The Green and Healthy Task Force must:

- beginning July 1, 2021, meet quarterly for a period of three years;
- advance the alignment, branding, and coordination of resources to more effectively deliver green and healthy housing for low-income households in the State;
- examine the public and private resources needed to address the housing needs of low-income communities;
- develop policy and statutory recommendations to eliminate barriers from low-income households achieving healthy, energy-efficient, and affordable housing; and
- engage with interested parties and collaborate with other entities that can help advance the goals of the task force, including experts in the field of healthy and energy efficient housing.

By July 1, 2022, and each July 1 thereafter, the task force must report its findings and recommendations to the Secretary of Health, the Secretary of the Environment, PSC, the Governor, and the General Assembly.

Funding Coordination Plan

DHCD must develop a plan to coordinate funding sources and leverage the greatest funding possible to support health and safety upgrades, weatherization, energy efficiency, and other general maintenance for low-income housing. The plan must coordinate funding among various State and federal programs, as specified. DHCD must coordinate with the Green and Healthy Task Force and identify other interested stakeholders to develop the plan. By December 31, 2021, DHCD must submit the plan to the Governor and the General Assembly.

Current Law:

EmPOWER Maryland

In 2008, the General Assembly passed the EmPOWER Maryland Energy Efficiency Act, which set target reductions of 15% in per capita electricity consumption and peak demand, respectively, by 2015 from a 2007 baseline. Legislation in 2017 extended the program through its 2018-2020 and 2021-2023 program cycles and established a new annual energy savings goal of 2.0% per year, based on each electric company's 2016 sales.

DHCD also participates in EmPOWER through two special fund programs: the Low Income Energy Efficiency Program (LIEEP) and the Multifamily Energy Efficiency and Housing Affordability (MEEHA) Program. LIEEP helps low-income households undertake energy conservation projects in their homes at no charge, while MEEHA promotes energy efficiency and affordability in the State's multifamily rental housing developments for low- and moderate-income households. Approved program costs are recovered by electric companies on customer bills.

AltaGas and Washington Gas Merger

PSC approved the merger between AltaGas and Washington Gas in 2018. The order approving the merger required AltaGas to deposit $30.2 million into the Maryland Gas Expansion Fund to be administered by the Maryland Energy Administration (MEA). MEA is required to use the funds in its discretion for the purpose of promoting the expansion of natural gas infrastructure to service businesses, residents, industry, and utility generation facilities. The funds are administratively held in SEIF in MEA.

PSC included several requirements for the uses of the fund to ensure that the ratepayers being impacted by the merger receive a majority of the benefits. The requirements include that a majority of the funds be spent in Washington Gas's service territory, that efforts be made to engage with affected counties and municipalities on the disbursement of the projects and funds, and that at least $4.6 million of the funds be deployed in Calvert, Charles, Frederick, and St. Mary's counties. The fund represents approximately 35% the total benefits anticipated to go to ratepayers as part of the merger.

State Fiscal Effect:

AltaGas and Washington Gas Merger

The fiscal 2022 opening balance of the Maryland Gas Expansion Fund is estimated to be $26.3 million; the Governor's proposed fiscal 2022 budget includes the entirety of the funding for authorized uses by MEA. Therefore, overall special fund expenditures for SEIF are not affected, but funds are diverted from their original purpose. Special fund revenues for DHCD increase correspondingly by $26.3 million in fiscal 2022.

DHCD Energy Efficiency Programs

This analysis assumes that DHCD expands its existing energy efficiency programs in order to meet the bill's enhanced energy savings requirements. Further, as EmPOWER must continue beyond the 2021-2023 planning cycle under current law, the bill's costs are assumed to be ongoing in nature.

DHCD's MEEHA Program funds an average of 15 projects annually, while LIEEP funds an average of 3,600 projects annually. In order for DHCD to meet the bill's proposed energy savings targets, DHCD estimates that MEEHA will need to complete an average of 75 projects annually, while LIEEP will need to complete 18,000 projects annually.

DHCD's estimate of the cost associated with expanding its programs five-fold to meet the bill's enhanced energy savings requirements is approximately $91 million annually, comprised mostly of contractual services ($55 million) for energy efficiency upgrades and related costs, plus about $22 million for MEEHA grants, $10 million for local weatherization agencies, and about $4 million in direct staff and other costs. The Department of Legislative Services cannot independently verify these costs at this time; ultimately, costs will depend on how DHCD chooses to implement the bill going forward, and the department could choose to do so in a more cost-efficient manner (DHCD's programs are an expensive component of EmPOWER). Regardless, costs are likely substantial – in the multiple tens of millions range.

DHCD's costs are assumed to be paid for by a combination of newly available AltaGas/Washington Gas merger funds ($26.3 million in total) and EmPOWER surcharge revenues. As discussed above, DHCD's costs are collected by electric companies through the EmPOWER Maryland surcharge – any approved costs in excess of available merger funding are assumed to be recovered through the surcharge. Accordingly, special fund revenues increase significantly – potentially by $91 million or more annually – from additional EmPOWER surcharge revenue to the extent necessary to cover additional costs. The amount and timing will depend on the amount and timing of approved cost collection by PSC. For context, utility revenue requirements for the EmPOWER EE&C programs totaled about $226 million in 2019.

This estimate assumes that DHCD can provide staff for the Green and Healthy Task Force and develop required plans with existing budgeted resources and/or those resources transferred under the bill. It further assumes that costs for other agencies related to the bill are minimal and absorbable within existing budgeted resources.

Local Fiscal Effect: Local weatherization agencies may benefit from funds received from DHCD under the bill; conversely, some local governments do not receive funding or assistance from the Maryland Gas Expansion Fund – mostly those affected by the AltaGas/Washington Gas merger. The effect on a particular local government is unknown but could be meaningful.

Small Business Effect: Small businesses engaged in weatherization projects for DHCD benefit from a significant increase in program expenditures; conversely, small businesses engaged in natural gas expansion projects no longer receive funding from the Maryland Gas Expansion Fund. Other small businesses are also affected by the outcome of the bill – increased weatherization and less availability of natural gas infrastructure.

Additional Comments: The EmPOWER surcharge is assessed on utility customers to pay for the program. State and local governments, as electricity customers, and small businesses, will ultimately pay for additional expenditures by DHCD under the bill when those costs are recovered by electric companies through rates. The timing and amount of rate recovery is unknown.

Additional Information

Prior Introductions: SB 740 of 2020, a similar bill, received a hearing from the Senate Finance Committee, but no further action was taken. Its cross file, HB 982, received a hearing from the House Economic Matters Committee, but no further action was taken.

Designated Cross File: SB 462 (Senator Feldman) **-** Finance.

Information Source(s): Department of Housing and Community Development; Public Service Commission; Department of Budget and Management; Maryland Department of the Environment; Department of Human Services; Maryland Energy Administration; Department of Legislative Services

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