Department of Legislative Services

Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 524 (Senator Feldman)
Finance Economic Matters

Public Utilities - Energy Efficiency and Conservation Programs - Energy Performance Targets and Low-Income Housing

This bill requires 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 and 2024-2026 EmPOWER Maryland Program cycles, 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 0.4% per year, compared to 2016, starting in 2023. The bill also establishes (1) the Green and Healthy Task Force, staffed by DHCD and (2) several reporting and planning requirements for DHCD and the Public Service Commission (PSC), including that DHCD develop a plan to provide energy efficiency retrofits to all low-income households by 2030. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: Special fund expenditures for DHCD increase significantly beginning in FY 2023 to meet the bill's enhanced energy savings requirements – DHCD estimates by $26.9 million in FY 2023, increasing to $219.8 million by FY 2027. Special fund revenues increase by an amount necessary to cover DHCD's annual programmatic costs. To the extent that federal funding is available to implement the bill, special fund expenditures and revenues may be partially supplanted by federal funds. The effect on electricity prices is discussed separately below.

Local Effect: Local weatherization agencies may benefit to the extent they receive additional funding under the bill. The effect on electricity prices is discussed separately below.

Small Business Effect: Meaningful.

Analysis

Bill Summary:

Provision of EE&C Programs and Services and EmPOWER Maryland

Energy savings to meet the bill's threshold requirements must be calculated in a specified manner; DHCD may use the savings achieved through all funding sources toward calculating the target annual incremental gross energy savings if the funding sources meet the standards or programs funded through the EmPOWER surcharge or the U.S. Department of Energy. DHCD must adopt regulations for weatherization of leased or rented residences to achieve specified benefits and goals under the bill.

The programs and services provided under the bill may not use specified building element materials, including those that contain formaldehyde. DHCD must give preference to contractors that are minority-owned, women-owned, or veteran-owned businesses in the State for procurement processes related to EmPOWER programs. In addition, DHCD may only approve contractors who follow specified labor practices.

It is the intent of the General Assembly that if the EmPOWER Maryland Program is extended beyond 2023, the target annual incremental gross energy savings required by the bill must increase to (1) 0.53% in 2024; (2) 0.72% in 2025; and (3) 1% in 2026.

DHCD, the Maryland Energy Administration (MEA), and other State agencies must apply for all federal funding that may become available to implement the bill.

Plan and Reporting Requirements

The bill establishes the following plan development and reporting requirements for DHCD and PSC:

- By September 1, 2022, DCHD must submit a plan to PSC detailing proposals for achieving the electricity savings and demand reduction targets required by the bill for 2023. By September 1, 2023, and every three years thereafter, DHCD must submit a plan to PSC detailing proposals for achieving the electricity savings and demand reduction targets required by the bill for the three subsequent calendar years. The plan must include specified information, including anticipated costs, projected electricity savings, and a description of the proposed EE&C programs and services. PSC must review the plan to determine whether it is adequate for achieving the target, and DHCD must provide an update to PSC every six months on plan implementation and progress.

- PSC must work with DHCD to establish the procedures necessary to develop and implement a plan for achieving the electricity savings and demand reduction targets required by the bill, including securing cooperation from electric companies related to funding, communications, referrals, data sharing, and any other cooperation PSC determines is necessary.

- 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 members of the Green and Healthy Task Force and identify other interested stakeholders to develop the plan. By December 31, 2022, DHCD must submit the plan to the Governor and the General Assembly.

- DHCD must report to PSC each year on (1) the amount of funding it receives and is projected to receive for energy efficiency and weatherization from the funding sources specified in the bill and (2) for the programs that contribute to energy efficiency and weatherization, the number of participants served and the amount of energy savings, reported in a specified manner. DHCD may satisfy this reporting requirement by including the information in its six-month status reports to PSC.

- DHCD must collaborate with members of the Green and Healthy Task Force to develop a plan, including a budget, a timeline, and potential funding sources, to provide energy efficiency retrofits to all low-income households by 2030. DHCD, in collaboration with the task force, must submit the plan to the General Assembly by December 1, 2022.

- By May 1 of each year, PSC, in consultation with MEA, must report all the above information provided to it by DHCD to the General Assembly.

Green and Healthy Task Force

The Green and Healthy Task Force must:

- beginning July 1, 2022, 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 to 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, 2023, 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.

Task force members may not receive compensation but are entitled to reimbursement for expenses.

Current Law: 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.

State Fiscal Effect: 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 current 2021-2023 planning cycle under current law, the bill's costs are assumed to be ongoing in nature.

DHCD's MEEHA Program has historically achieved average savings of 2,000 megawatt hours per year, while LIEEP has historically achieved average savings of 4,000 megawatt hours per year. In order for DHCD to meet the bill's proposed energy savings target for fiscal 2023, DHCD estimates that MEEHA must produce an additional 18,500 megawatt hours in savings, while LIEEP must produce an additional 10,500 megawatt hours in savings. The required energy savings increase further in future fiscal years pursuant to the ongoing goals set by the bill.

DHCD's estimate of the cost associated with significantly expanding its programs to meet the bill's enhanced energy savings requirements is approximately $26.9 million in fiscal 2023, increasing to $219.8 million by fiscal 2027. For fiscal 2023, the estimated cost is comprised mostly of contractual services for energy efficiency upgrades and related costs ($11.4 million), about $11.1 million for grants, and about $4.5 million in direct staff and other costs. In future fiscal years, DHCD estimates significantly higher contractual and grant costs. The Department of Legislative Services (DLS) 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 EmPOWER surcharge revenues. Accordingly, special fund revenues increase significantly – likely by tens of millions 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 $226.0 million in 2019.

DHCD's costs may be offset to the extent that the State is able to apply for and obtain federal funding to assist with implementation of the bill; however, it is unclear whether any such funding is available and/or obtainable at this time.

This estimate assumes that DHCD can provide staff for the Green and Healthy Task Force and develop required plans with the additional staff and resources necessary to otherwise implement the bill. It further assumes that costs for other agencies related to the bill are minimal and absorbable within existing budgeted resources.

Small Business Effect: Small businesses engaged in weatherization and energy saving projects for DHCD benefit from a significant increase in program expenditures.

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

Additional Information

Prior Introductions: HB 379 of 2021, a bill with similar provisions, received an unfavorable report from the House Economic Matters Committee. Its cross file, SB 462, received a hearing in the Senate Finance Committee, but no further action was taken. HB 982 of 2020, a bill with similar provisions, received a hearing in the House Economic Matters Committee, but no further action was taken. Its cross file, SB 740, received a hearing in the Senate Finance Committee, but no further action was taken.

Designated Cross File: HB 108 (Delegate Charkoudian) - Economic Matters.

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

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