HB 1322

Department of Legislative Services
Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 1322 (Delegate McHale, *et al.*)
Environmental Matters

Energy-Saving Investment Program

This bill establishes an Energy-Saving Investment Fund in the Maryland Energy Administration (MEA) as a special, continuing, nonlapsing fund. The stated purpose of the fund is to increase the opportunities for energy consumers to save energy, reduce energy costs, and reduce pollution and threats to public health associated with energy production and consumption. The bill requires each retail electric customer and each residential retail gas customer to contribute to the fund through an energy-saving investment charge that each electric company and each gas company will collect and remit to the Comptroller to be placed in the fund.

The bill takes effect July 1, 2001 and sunsets December 31, 2011.

Fiscal Summary

State Effect: Special fund revenues would increase by $27.35 million in FY 2002 and by $62.52 million annually from FY 2003 through FY 2009 from investment charges. Special fund expenditures would increase by $27.29 million in FY 2002, which includes $24.90 million for energy efficiency programs. Future year expenditures are annualized, adjusted for inflation, and reflect ongoing operating costs, including $58.10 million in energy efficiency programs. General fund expenditures would increase by $0.67 million in FY 2002 and by $1.53 million annually thereafter through FY 2009 for the investment charge, with expected energy savings in the long run.

($ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
SF Revenue	$27.35	$62.52	$62.52	$62.52	$62.52
GF Expenditure	.67	1.53	1.53	1.53	1.53
SF Expenditure	27.29	62.24	62.27	62.30	62.34
Net Effect	($.60)	($1.24)	($1.28)	($1.31)	($1.35)

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

Local Effect: Increase in local expenditures from FY 2002 through FY 2009 related to the charge. Potential increase in administrative expenditures for municipal corporations that provide retail electric/gas service and choose to participate in the program. Potential increase in local revenues in FY 2012. Energy savings in the long run.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The fund consists of: (1) the charge collected pursuant to the bill; (2) funds to match the collected charges, as appropriated in the State budget and subject to the availability of funds; and (3) any additional funds appropriated to the fund. Not more than 10% of the funds may be expended by the MEA on management and supervision of activities. The Public Service Commission (PSC) shall set the level of the investment charge as provided by the bill. A municipal corporation or cooperative that provides retail electric or gas service to customers may decline to collect the charge if it gives prior written notice to the Comptroller. The PSC may suspend the collection of the charge for up to six months if it finds that the balance in the fund has exceeded $35 million for two consecutive fiscal quarters. Any uncommitted funds remaining in the fund at the end of June 30, 2011, must be returned to electric and gas customers in a manner prescribed by the PSC.

The MEA must prepare and maintain an energy-saving investment plan. All disbursements from the fund shall be in accordance with the plan. The MEA must submit the initial plan to the PSC by January 2, 2002, and must periodically update the plan. The first updated plan must be submitted to the PSC by January 2, 2005. The plan must describe, evaluate, and recommend programs designed to accomplish several specified objectives. At least 5% of each of the funds derived from residential retail electric customers and residential gas customers, respectively, shall be directed toward programs to serve low-income residential electric customers and low-income residential gas customers, respectively. The bill outlines the required elements of the plan. The MEA shall annually determine the amount of any additional funds needed to implement programs recommended in the plan and submit the request for additional funding to the PSC. The PSC must review the plan or update and provide an opportunity for interested parties to comment on the plan or update. The PSC must issue a final order within 90 days after receiving the plan or update. The bill outlines the requirements for approving the plan and provides that, as part of its final order, the PSC may modify or reject any program recommended for implementation if it finds that it is not cost-effective. Within 60 days after any final order rejecting or modifying the plan or update or any program in the plan or update, the MEA may file a supplement. The PSC must review the supplement and issue a final order within 60 days.

The MEA must: (1) manage, supervise, and administer the programs implemented under the approved plan; (2) adopt regulations necessary to ensure that the implemented efficiency programs carry out the purposes of the plan; and (3) develop procedures for monitoring and assessing all energy efficiency programs. The MEA may contract with one or more nongovernmental entities for assistance in carrying out its responsibilities under the bill.

By July 1, 2001, the Director of the Energy Administration must convene an Energy-Saving Advisory Board to provide the MEA with review and comment on draft and final versions of the plan, plan updates, and plan supplements, goals, milestones, budgets and performance indicators, recommendations, and other matters. By January 2, 2003, and at one-year intervals thereafter through January 2, 2011, the MEA must submit an annual report on the fund to the General Assembly in cooperation with the Comptroller.

Current Law: None applicable.

State Revenues: The bill specifies that the PSC must set the level of the charge on retail electric customers for fiscal 2002 as follows: 0.025 cents (0.25 mills) per kilowatt-hour from July 1, 2001 through March 31, 2002, and 0.1 cents (1 mill) per kilowatt-hour thereafter through fiscal 2009. (Upon request by the MEA and approval by the PSC, the charge could be higher, although the MEA advises that a higher charge is not anticipated.) The total amount of the charge applicable to an industrial process load may not exceed $2,500 per month. For residential gas customers, the charge must be an amount that the PSC finds to have the same or substantially similar effect on the total yearly gas bill of an average residential gas customer as the amount established for retail electric customers has on the total yearly electric bill of an average residential retail electric customer. According to the MEA, such a charge would total approximately $0.03 per Deca therm from July 1, 2001 through March 31, 2002 and $0.1099 per Deca therm thereafter through fiscal 2009. Based on information provided by the MEA, special fund revenues from the investment charge would total an estimated $27.35 million in fiscal 2002 and $62.52 million annually thereafter through fiscal 2009.

These estimates are based on average electricity and gas consumption in the residential, commercial, and industrial sectors as reported by the U.S. Department of Energy for Maryland utilities for 1999. These estimates assume that all utilities will participate in the program. To the extent that any municipal electric corporations or cooperatives choose not to participate, special fund revenues would decrease. The estimates also assume that the PSC will not suspend the charge as authorized by the bill under specified circumstances. The estimates do not include any State matching funds or any other funds appropriated to the fund. To the extent that any such funds are appropriated, special fund revenues would increase.

The bill provides that if any funds remain in the special fund at the end of fiscal 2011, funds would be returned to customers in a manner prescribed by the PSC. Because the State is a retail electric customer, general fund revenues could increase in fiscal 2012 pursuant to any refunds.

State Expenditures: Special fund expenditures would increase by an estimated $27.29 million in fiscal 2002 related to the implementation of the program by the MEA. General fund expenditures would increase by an estimated $667,900 in fiscal 2002 for the State's electric costs. The PSC and the Office of People's Counsel could handle any increase in workload with existing budgeted resources.

The estimates do not include any State matching funds or any other funds appropriated to the fund. To the extent that any such funds are appropriated, general fund expenditures would increase.

Maryland Energy Administration

Special fund expenditures would increase by an estimated $27.29 million in fiscal 2002, which includes costs for administration and for the implementation of programs that would be developed pursuant to the energy-saving investment plan. Special fund expenditures for *administrative activities* would be $2.39 million in fiscal 2002, which accounts for a 90-day start-up delay. This estimate reflects the cost of hiring nine employees (an energy efficiency program manager, a residential program manager, a commercial/industrial program manager, an assistant attorney general, a communications manager, a procurement specialist, a data manager, and two program associates) to: (1) prepare the investment plan; (2) design and manage programs; (3) coordinate the evaluation and reporting of programs; (4) provide legal expertise; (5) facilitate the communications process; (6) provide fiscal management and oversight; (7) manage reports and data; (8) assist with the organization, coordination, and review of programs; and (9) monitor activities in other states. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below:

- no more than 10% of the funds collected may be expended on management and supervision of activities, as provided by the bill;

- administrative expenditures for a similar program in Wisconsin totaled 14% of revenues; in New York, administrative costs totaled 9% of revenues;

- contractual services will be used for independent evaluation and monitoring of all energy efficiency programs, analysis of statewide energy use, data management services to design and maintain an integrated information management system, a compliance agent to assist with the management and monitoring of all contracts and subcontracts, and program support;

- substantial in-state and out-of-state travel;
- the purchase of a computer and office equipment, including data servers, personal computers, software, desks, and file space for each position; and
- extensive use of contractors (private businesses and non-profit organizations) to design and administer the programs.

Salaries and Fringe Benefits	$399,700
Contractual Services	1,800,000
Communications	80,000
Equipment	45,000
Other Operating Expenses	60,900
Total FY 2002 Administrative Exp.	**$2,385,600**

Future year administrative expenditures reflect: (1) full salaries with a 6.5% increase in fiscal 2003 and a 4.5% increase each year thereafter, with 3% employee turnover; (2) increases in costs related to communications and contractual services; and (3) 1% annual increases in ongoing operating expenses.

The MEA advises that it would spend the bulk of the remaining fund balance each year on programs established pursuant to the energy-saving investment plan. These expenditures are estimated to total approximately $24.90 million in fiscal 2002 and $58.10 million annually from fiscal 2003 through fiscal 2009. A breakdown of estimated costs for the anticipated residential and commercial/industrial programs is provided below:

Anticipated Programs	Estimated Expenditures for FY 2002 (in millions)	Estimated Annual Expenditures for FY 2003-2009 (in millions)
Residential Programs (subtotal)	***$16.20***	***$37.60***
Public Information Programs	2.70	6.30
Financing and Loan Programs	7.40	17.00
Residential Energy Services	0.50	1.20
Technical Assistance	4.00	11.20
Innovative Residential Programs	1.60	1.90
Comm./Ind. Programs (subtotal)	***8.70***	***20.50***
Market Transformation	6.00	14.40
Technical Assistance	1.70	4.10
Innovative Programs	1.00	2.00
Total, All Programs	**$24.90**	**$58.10**

According to the MEA, the residential programs will most likely include: (1) public information programs to build on existing federal and State programs related to Energy Star® awareness and support; (2) a financing and loan program to provide funds for interest rate buy-downs, retrofits, major remodeling efforts, and new home construction loans for homebuilders using energy-efficient design features and appliances; (3) a residential energy services industry program to target the residential building market and provide training for HVAC installers, building contractors, and others regarding energy efficiency practices; (4) technical assistance to homeowners and owners of multifamily dwelling units, low-income weatherization assistance, and energy audits; and (5) innovative residential programs to promote special projects for the residential sector using a bidding process to identify and solicit innovative, cost-effective energy efficiency projects.

The commercial/industrial programs are anticipated to include: (1) market transformation programs, including a public information program consisting of demonstration projects, office product campaigns and training, HVAC training, a customer awareness campaign, a certification program for building design standards, and energy efficiency financing programs; (2) technical assistance targeted towards particular industry segments that have been shown to have significant potential for cost-effective energy efficiency improvements and modifications, such as hospitals and hotels; and (3) innovative commercial/industrial energy efficiency programs targeted to small and medium-sized businesses to promote special projects for commercial, industrial, and institutional customers using a bidding process to identify and solicit innovative, cost-effective energy efficiency projects.

To the extent that special fund revenues vary, program expenditures would vary accordingly.

Based on the estimated revenues and expenditures for the energy-saving investment program, the estimated fund balance from fiscal 2002 through fiscal 2006 would be as follows:

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Ending Balance	$67,600	$351,400	$602,600	$819,300	$999,400

The State as a Consumer of Electricity

As a consumer of electricity, the State would be subject to the investment charge established by the bill. According to information provided by the MEA, the State used 1,526,731,215 kilowatt-hours in fiscal 2000. Assuming the State's electricity use remains at that level, and the utilities that serve the State participate in the program, the State's share of the investment charge would total an estimated $667,900 in fiscal 2002 and an estimated $1.53 million annually thereafter through fiscal 2009. Accordingly, general fund expenditures for electric service would increase by those amounts. However, the State could also benefit from the programs implemented as a result of the bill. To the extent that the bill results in greater use of energy efficient practices and products, the State would realize energy savings in the long run.

Local Fiscal Effect: A municipal corporation or electric cooperative that provides retail electric or gas service could decline to collect the charge as provided by the bill. To the extent that a municipal corporation chooses to collect the charge from its customers, administrative costs could increase. To the extent that a municipal corporation or cooperative opts out of the program, its customers, including any local jurisdictions, would not be required to pay the charge. Assuming all utilities participate in the program, however, all local jurisdictions would face increased energy costs from fiscal 2002 through fiscal 2009 related to the charge established by the bill. Due to the varying sizes of local governments, the economic impact of the charge on local jurisdictions is difficult to estimate. To the extent that any funds remain in the special fund at the end of fiscal 2011, funds would be returned to customers in a manner prescribed by the PSC. Local jurisdictions could also benefit from the programs implemented as a result of the bill. To the extent that the bill results in the use of more energy-efficient practices and products, local jurisdictions would realize energy savings in the long run.

Small Business Effect: Small business consumers of retail electricity would incur increased expenditures from fiscal 2002 through fiscal 2009 as a result of the charge. For commercial customers, the average charge is estimated at approximately $82 per year. To the extent that any funds remain in the fund at the end of fiscal 2011, funds would be returned to customers in a manner prescribed by the PSC. As consumers of electricity, small businesses could directly benefit from the programs established pursuant to the bill. To the extent that the bill results in the use of more energy-efficient practices and products, businesses would realize energy savings in the long run. To the extent that the programs developed by the MEA result in an increase in the demand for energy-efficient products or services, any small business manufacturing, selling, or providing such products and services would benefit. Small businesses would also benefit to the extent that they are hired as contractors or subcontractors to implement the programs established pursuant to the bill.

Additional Comments: According to the PSC, in December 1999 there were 2,582,086 residential electric customers, 939,029 residential gas customers, 290,802 commercial electric customers, and 14,907 industrial electric customers in the State. Residential customers would pay approximately 51% of the total charges collected pursuant to the bill; commercial customers would pay about 38%; and industrial customers would pay about 11%. The average annual cost for the energy-saving investment charge is estimated as follows: $9.04 for each residential electric customer, $9.02 for each residential gas customer, $81.70 for each commercial electric customer, and $465.75 for each industrial electric customer. However, to the extent the bill results in greater energy efficiency, customers would realize energy savings in the long run.

Additional Information

Prior Introductions: None.

Cross File: SB 688 (Senator Frosh, *et al.*) – Finance.

Information Source(s): Maryland Energy Administration, Public Service Commission, Office of People's Counsel, City of Annapolis, Town of Thurmont, Department of Legislative Services

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