

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE

Senate Bill 767 (Senator Dorman, *et al.*)

Finance

Electricity Regulation – Clean Energy Portfolio Standard

This bill requires the Public Service Commission (PSC) to establish a Clean Energy Portfolio Standard that applies to all “retail electricity products” sold in the State beginning in 2005. Each electricity supplier must submit an annual report to the PSC relating to compliance with the standard for the preceding year. The bill establishes a Maryland Clean Energy Fund as a special, nonlapsing fund to encourage the development of generating resources for clean energy. If a retail electricity product contains fewer kilowatt-hours from eligible energy resources than are required to comply with the standard for that year, the supplier must pay a compliance fee of two cents per kilowatt-hour into the fund. The bill provides for the payment of fees from the fund to owners of eligible facilities that produce clean energy after a specified period of time. The PSC must, by regulation or order, impose sufficient penalties to ensure compliance with the bill. The PSC must adopt orders or regulations to implement the bill.

Fiscal Summary

State Effect: Any increase in workload prior to FY 2005 could be handled with existing budgeted resources. General fund expenditures would increase by \$69,000 in FY 2005 to implement the portfolio standard program. FY 2006 expenditures are adjusted for inflation and reflect ongoing operating expenses. Potential increase in special fund revenues beginning in FY 2006. Special fund expenditures would not be affected until at least FY 2012.

(in dollars)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
SF Revenue	\$0	\$0	\$0	\$0	-
GF Expenditure	0	0	0	69,000	72,700
Net Effect	\$0	\$0	\$0	(\$69,000)	(\$72,700)

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

Local Effect: Potential increase in expenditures for any local jurisdiction that becomes a retail electricity supplier. Potential increase in local revenues to the extent that a local jurisdiction becomes a generator of eligible energy.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The portfolio standard shall be 0.5% in 2005, 1% in 2006, 2% in 2007, 3% in 2008, 4% in 2009, and 5% in 2010 and each year thereafter. Energy is eligible for inclusion in meeting the standard if it is generated from an eligible energy resource at a facility that did not produce energy from an eligible energy resource before January 1, 2001. By December 31, 2012, an electricity supplier shall receive double credit toward meeting the standard for energy derived from solar energy or fuel that is derived from an eligible energy resource and is used in a fuel cell. In the sixth calendar year after the fund collects compliance fees for a given year, the PSC shall pay the compliance fees to owners of eligible facilities in the State that produce electricity from eligible energy resources. The bill requires the PSC to adopt by regulation or order eligibility criteria for owners and facilities which may receive compliance fees from the fund.

“Eligible energy resource” includes solar, wind, qualifying biomass, methane from the anaerobic decomposition of organic materials in a landfill or wastewater treatment plant, geothermal, or ocean, including energy from waves, tides, currents, and thermal differences. “Qualifying biomass” means a solid, nonhazardous, cellulosic waste material that is segregated from other waste materials and is derived from specified sources. “Retail electricity product” means electricity sold under identical terms of service and not for resale.

Current Law: None applicable.

State Fiscal Effect: Because the portfolio standard would not be effective until 2005, the PSC could handle any increase in workload prior to fiscal 2005 with existing budgeted resources. General fund expenditures could increase by an estimated \$69,000 in fiscal 2005. This estimate reflects the cost of hiring one regulatory economist to develop regulations, collect data from suppliers, examine the data, and monitor the clean energy portfolio of each supplier. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses. The information and assumptions used in calculating the estimate are stated below:

- the economist would be hired effective July 1, 2005; and
- currently, there are approximately 30 to 35 licensed retail electricity suppliers.

Salary and Fringe Benefits	\$67,500
Operating Expenses	<u>1,500</u>
Total FY 2005 State Expenditures	\$69,000

Fiscal 2006 expenditures reflect: (1) a 4.5% increase in salary, with 3% employee turnover; and (2) a 1% increase in ongoing operating expenses.

The bill provides that if a retail electricity product contains fewer kilowatt-hours from eligible energy resources than are required to comply with the standard for that year, the supplier must pay a compliance fee of two cents per kilowatt-hour into the special fund established by the bill. Revenues to the fund would depend on the number of suppliers that are unable to meet the portfolio standards and the associated shortfalls, which cannot be predicted at this time. In any event, because suppliers would be required to submit an annual report to the PSC relating to compliance with the standard for the preceding year, no compliance fees would be paid into the fund until at least fiscal 2006. Expenditures from the fund would not occur until at least fiscal 2012, or the sixth calendar year after the fund collects compliance fees for a given year. Any such expenditures would depend on revenues collected and the eligibility of facilities to be awarded payments from the fund. Eligibility for such funds will be prescribed by regulation and cannot be predicted at this time.

The bill also provides for the development of regulations or orders to impose sufficient penalties to ensure compliance with the bill. Because any such penalties will be developed by regulation in consultation with the Office of the Attorney General, and because the extent to which retail electricity suppliers will violate the provisions of the bill is unknown, any such revenue cannot be estimated at this time.

Local Fiscal Effect: Currently, no local jurisdictions in the State are licensed retail electricity suppliers. To the extent that any local jurisdiction becomes a retail electricity supplier, however, it would be required to meet the clean energy portfolio standards and reporting requirements established by the bill or be subject to compliance fees and penalties. To the extent that any local jurisdiction becomes a generator of eligible energy resources, the bill could result in an increase in local revenues by selling eligible energy to suppliers that need to purchase it to meet the standards established by the bill. The extent to which the bill will result in an increase in the demand for eligible energy

resources cannot be estimated at this time, however. Presumably, a local generator could also become eligible for payments from the fund as provided by the bill.

Small Business Effect: To the extent that the bill increases the demand for eligible energy resources, any small business that generates eligible energy could benefit. A producer of clean energy could also benefit to the extent that it becomes eligible for payments from the fund as provided by the bill. According to the PSC, retail electricity suppliers are generally larger businesses, so small businesses would not be subject to the bill's requirements relating to suppliers.

Additional Comments: To the extent that the bill's requirements cause suppliers to increase their prices, consumers would face higher costs. Any such increase cannot be predicted at this time. In any event, because the electric industry has been restructured, a consumer facing higher costs could always choose another electricity supplier.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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