

Department of Legislative Services
 Maryland General Assembly
 2002 Session

FISCAL NOTE

Senate Bill 540 (Senator Frosh, *et al.*)
 Education, Health, and Environmental Affairs and Finance

Maryland Energy Administration - Minimum Energy Efficiency Standards for Appliances and Equipment Sold in State

This bill establishes minimum energy efficiency standards for specified new products to be sold or installed in the State. The bill provides for the certification, testing, and inspection of those products and establishes a civil penalty for repeat violations by manufacturers, distributors, and retailers. The Maryland Energy Administration (MEA) would be responsible for the administration of the program.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: General fund expenditure increase of \$5,000 annually beginning in FY 2005 for contractual services related to product testing by MEA. Potential minimal general fund expenditure increase beginning in FY 2004 for the purchase of products affected by the bill; in the long run, energy savings are anticipated. Potential increase in general fund revenues beginning in FY 2004 from the bill's fee and penalty provisions.

(in dollars)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	\$0	-	-	-	-
GF Expenditure	0	-	5,000	5,000	5,000
Net Effect	\$0	\$0	(\$5,000)	(\$5,000)	(\$5,000)

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

Local Effect: Local expenditures for the purchase of products affected by the bill could increase beginning in FY 2004. In the long run, energy savings are anticipated.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: MEA must adopt regulations by January 1, 2003 establishing minimum energy efficiency standards for specified new products, including: (1) torchiere lighting fixtures; (2) unit heaters; (3) low-voltage dry-type transformers; (4) refrigerated beverage vending machines; (5) traffic signal modules; (6) illuminated exit signs; (7) automatic commercial ice-makers; (8) large packaged air-conditioning equipment; (9) set-top boxes; (10) commercial clothes washers; and (11) other products designated by MEA as provided by the bill.

The bill specifies minimum efficiency standards for those products and authorizes MEA to establish increased standards and to establish standards for products not specified in the bill. On or after January 1, 2004, no new product may be sold or offered for sale in the State unless the energy efficiency of the new product meets or exceeds those standards. On or after January 1, 2005, no new product may be installed in the State unless the product meets those standards.

The bill requires MEA to adopt procedures for testing the energy efficiency of new products covered by the bill if testing procedures are not provided for in the Maryland Building Performance Standards (MBPS). The bill directs MEA to use U.S. Department of Energy approved test methods or other appropriate nationally recognized test methods. Manufacturers of new products listed in the bill must cause samples of their products to be tested in accordance with test procedures adopted by MEA (or those specified in the MBPS) and must certify to MEA that the products meet the bill's requirements. MEA must adopt regulations governing the certification of new products and may coordinate with the certification programs of other states with similar standards.

MEA may test products using an accredited testing facility. If products tested are found not to be in compliance, MEA must charge the manufacturer for the cost of product purchase and testing and provide information to the public on products found not to be in compliance. The bill authorizes MEA to periodically inspect distributors and retailers of new products affected by the bill. The bill directs MEA to work with the Department of Housing and Community Development (DHCD) to coordinate on inspections for new products that are also covered by the MBPS.

The bill also directs MEA to investigate complaints received concerning violations of the bill and to report the results of any investigation to the Attorney General. The Attorney General may institute proceedings to enforce the provisions of the bill. For first violations, any manufacturer, distributor, or retailer would be subject to a warning. For any repeat violations, the violator would be subject to a civil penalty not exceeding \$250. Each violation constitutes a separate offense and each day a violation continues constitutes a separate offense.

The bill does not apply to: (1) new products manufactured in the State and sold outside the State; (2) new products manufactured outside the State and sold at wholesale inside the State for final retail sale and installation outside the State; (3) products installed in mobile manufactured homes at the time of construction; or (4) products designed expressly for installation and use in recreational vehicles.

Current Law: MEA's current programs reflect a wide arena of energy issues, including energy-efficiency. Among other things, MEA manages the Commercial Green Buildings Program for the State, including defining standards for the income tax credit for green buildings that was established during the 2001 session (Chapters 620 and 621). The Maryland Clean Energy Incentive Act of 2000 (Chapter 296), among other things, encouraged the purchase of energy-efficient appliances by exempting from the sales and use tax: (1) clothes washers, room air conditioners, and refrigerators that meet or exceed specified guidelines; and (2) specified energy-efficient heating and cooling equipment and fuel cell electric generating equipment. There are no State standards governing the energy-efficiency of products sold and installed in the State.

Background: This bill is based on model legislation developed by the American Council for an Energy-Efficient Economy (ACEEE). ACEEE advises that the products included in the model legislation were chosen based on a variety of factors, including that:

- the products are significant users of energy;
- State action is not preempted by existing federal standards;
- standards for incorporation by reference exist; and
- the products are available in the national market.

According to ACEEE, the per unit incremental product costs of the model legislation on a national basis, the energy savings in Maryland (measured in gigawatt-hours (GWh) or trillion British Thermal Units (Btu), and the long-term benefit-cost ratio on a national basis (based on the estimated net present value of investments and savings through 2020, assuming all states adopt the standards) are estimated as follows:

<u>Product</u>	<u>Per unit Incremental Cost (nationwide)</u>	<u>One sales-year energy savings in MD (GWh or Trillion Btu)</u>	<u>Long-term Benefit-Cost Ratio (nationwide)</u>
Dry type transformers	\$9	7.39	1.7
Ice-makers	\$54	2.92	6.0
Vending machines	\$24.50	3.26	6.4
Set-top boxes	\$5	54.29	5.6
Exit signs	\$30	2.69	6.6
Traffic signals	\$125	3.85	2.2
Torchiere lamps	\$40	36.47	3.1
Packaged large HVAC	\$1,813	1.39	2.1
Unit and duct heaters	\$425	0.18	6.7
Commercial clothes washers	\$139	5.07	4.6
Total		117.50	3.6

Source: American Council for an Energy-Efficient Economy.

ACEEE advises that the estimated per unit incremental costs are based on the price differential between existing equipment that meets the proposed standards and the baseline price of all existing products on a national basis. Estimated per unit incremental costs for products specific to Maryland are not available.

According to ACEEE, by 2010, the model legislation is anticipated to save approximately 0.96 terawatt-hours of energy in Maryland, or enough energy to meet the usage of over 75,000 typical Maryland households.

State Revenues: General fund revenues could increase beginning in fiscal 2004 from the payment of fees to MEA from a manufacturer of a product tested by MEA that does not meet the standards established by the bill. Any such increase cannot be reliably estimated at this time. General fund revenues would also increase as a result of any civil penalties assessed. Any such increase cannot be reliably estimated at this time, but is not anticipated to be significant.

State Expenditures: The Governor's proposed fiscal 2003 budget includes funds for the addition of two positions to implement the income tax credit for green buildings legislation that was enacted during the 2001 session (Chapters 620 and 621). MEA advises that some of the activities that MEA is required to do under that law are similar to those that MEA would be required to do under this bill. Accordingly, MEA could develop regulations and begin implementing the bill's requirements using existing budgeted resources.

General fund expenditures could increase by an estimated \$5,000 annually beginning in fiscal 2005 for contractual services related to product testing. That estimate assumes that until fiscal 2005, MEA will rely on products for which there are existing standards and testing. DHCD advises that it does not now inspect new products that are covered by the MBPS; it is assumed that any coordination with MEA related to product testing could be handled with existing budgeted resources.

Legislative Services advises that the costs for MEA to administer the program could increase depending on the extent of the program developed by MEA through regulation. Should MEA require additional resources to implement the bill's requirements, MEA may request such resources through the annual budget process.

In addition to costs related to regulating the new program, general fund expenditures could increase beginning in fiscal 2004 for the State to purchase products affected by the bill. However, pursuant to a March 2001 executive order entitled *Sustaining Maryland's Future with Clean Power, Green Buildings, and Energy Efficiency*, the State will be increasing its use of energy-efficient products. Accordingly, while the bill could result in an increase in costs for the purchase of some of the products affected by the bill, any such increase is not anticipated to be significant. To the extent that the bill reduces energy used by the State, in the long run, the bill could result in a decrease in energy costs.

Local Fiscal Effect: The extent to which local governments are already purchasing energy-efficient products that meet the standards established by the bill is unknown. However, local governments could incur increased costs for products affected by the bill beginning in fiscal 2004. In addition, because many of the products affected by the bill would be installed during the construction of buildings, the price of government buildings could be affected. According to ACEEE, for products that local governments might purchase, the per unit incremental product costs on a national basis are estimated as follows:

<u>Product</u>	<u>Per unit Incremental Cost</u>
Dry type transformers	\$9
Ice-makers	\$54
Vending machines	\$24.50
Exit signs	\$30
Traffic signals	\$125
Packaged large HVAC	\$1,813
Unit and duct heaters	\$425

Because these estimates are based on national product availability, Legislative Services advises that costs in Maryland could vary. In the long run, the bill could result in a decrease in energy costs to the extent the bill reduces energy used by local jurisdictions. According to ACEEE, in the long run, the net energy savings are estimated to be greater than the net cost of the products, on a national basis.

Small Business Effect: Manufacturers, distributors, and retailers of new products affected by the bill could incur increases in costs related to the bill's prohibitions. Any costs incurred would likely be passed onto customers in the form of higher product prices. The total increase in costs for small businesses in Maryland cannot be estimated at this time. While all businesses purchasing these products would be affected, small businesses will have a proportionately larger increase in costs because they would most likely not benefit from any large-volume discounts. Also, of the businesses using products affected by the bill, many tend to be small businesses. Based on a 1998 survey of U.S. businesses by the U.S. Department of Census, over 80% of accommodations firms, over 80% of eating/drinking firms, over 90% of general merchandise stores, over 90% of all retail stores, and over 94% of laundry and cleaning service firms employ fewer than 20 people. In addition, because some of the products affected by the bill would be installed during the construction of buildings, the price of commercial real estate and commercial rental rates could be affected. Any such impact is speculative, however, and cannot be reliably estimated at this time.

In addition, because the bill would affect products manufactured outside the State, it is possible that manufacturers in other states would choose not to change their manufacturing processes to meet Maryland-specific requirements. However, ACEEE advises that products meeting the standards established by the bill are available on the national market. To the extent this is case, the impact on manufacturers in other states would be less.

Any business, large or small, using products affected by the bill could benefit in the long run from a decrease in energy costs. According to ACEEE, in the long run, the net energy savings are estimated to be greater than the net cost of the products, on a national basis.

Additional Comments: Some of the products affected by the bill, such as set-top boxes and torchiere lamps, are routinely purchased by households. In addition, because some of the products affected by the bill are used in apartment buildings, apartment rental rates could increase. Accordingly, residential customers could also be affected by the bill. In the long run, however, energy savings are anticipated.

Additional Information

Prior Introductions: None.

Cross File: HB 1336 (Delegate Franchot) – Rules and Executive Nominations.

Information Source(s): Maryland Energy Administration, Department of Housing and Community Development, Office of the Attorney General, American Council for an Energy-Efficient Economy, Natural Resources Defense Council, Department of Legislative Services

Fiscal Note History: First Reader - February 22, 2002
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