HB 490

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE
Revised

House Bill 490 (Delegate McIntosh, *et al.*)
Economic Matters Finance

Maryland Energy Administration - Energy Efficiency Programs

This bill requires the Maryland Energy Administration (MEA), by October 1, 2005, to develop and submit to the Public Service Commission (PSC) a plan containing cost-effective energy efficiency programs and services. PSC must review the plans in accordance with specified criteria and approve appropriate programs. MEA must update the plan every two years. Beginning in fiscal 2006, and every two years thereafter, PSC, in consultation with MEA, must submit a report to the General Assembly. Among other things, the report must include a recommendation for the appropriate funding level and methods to adequately fund approved programs and services.

The bill takes effect July 1, 2005.

Fiscal Summary

State Effect: It is assumed that the development and review of plans could be handled with the existing budgeted resources of MEA and PSC. State expenditures could increase to implement any approved programs, but any such increase cannot be reliably estimated at this time.

Local Effect: The bill would not directly affect local governments.

Small Business Effect: None. The bill would not directly affect small businesses. The extent to which any programs established as a result of the bill would affect small businesses is unknown.

Analysis

Bill Summary: Any interested person may also submit an energy efficiency program for PSC's consideration. Any proposal submitted to PSC must include one or more cost-effectiveness tests and information to assist PSC in assessing the proposal. The bill also expands the considerations that PSC must review when assessing a program to include the impact of a proposed program on consumer energy bills.

Current Law: Subject to review and approval by PSC, each gas and electric company is required to develop and implement programs and services to encourage and promote the efficient use and conservation of energy. PSC must require each gas and electric company to establish any such program or service that PSC deems appropriate and cost-effective.

In determining whether a program or service encourages and promotes energy efficiency and conservation, PSC must consider the impact on jobs, the impact on the environment, the impact on rates, and cost-effectiveness.

The Electric Customer Choice and Competition Act of 1999 (Chapter 4) restructured the electric industry, allowing for consumer choice of electricity suppliers. As a result, Maryland's electric industry was opened to competition in 2000; however, the law and related settlements with utilities also resulted in a temporary rate freeze for residential and commercial customers. Rates are expected to increase after the freeze ends.

The restructuring law required PSC to ensure that restructuring did not affect cost effective conservation programs and directed it to evaluate whether current and potential programs were cost effective. PSC issued a report required by the statute that concluded that such programs should be evaluated by determining an overall demand reduction goal and whether the goal is worth the effort and related costs. It recommended using general funds or general obligation bonds as financing tools.

Chapter 4 provided for the establishment and administration of a $34 million universal service fund to help low-income customers pay their electricity bills and to provide for energy conservation measures for those customers.

Background: Unlike many states that have adopted electricity restructuring, Maryland did not have a significant history of levying public benefits charges on consumption of electricity before restructuring. Public benefit programs such as demand-side management were addressed directly through requirements in electricity tariffs rather than as separately stated charges for dedicated funds. The Maryland Energy Assistance Program administered by the Department of Human Resources (DHR) is only a passthrough of federal funds without any State contribution. Chapter 4 enacted the first true public benefit program in Maryland, the Electric Universal Service Program, to provide targeted assistance to low-income electric customers for bill payment, retirement of bill arrearages, and improved energy efficiency through weatherization.

As a result of restructuring, electric utilities are seeking ways to reduce discretionary expenditures while maximizing electricity sales to recover fixed costs and increase profits. Consequently, most have diminished or eliminated energy efficiency programs. However, MEA is involved with a range of activities relating to energy efficiency. For example, MEA's Energy Star® Marketing Campaign educates consumers about the benefits of purchasing Energy Star® appliances and homes. MEA also administers a training program to educate heating and cooling contractors on installation techniques to improve efficiency.

State Fiscal Effect:

Administrative Expenditures

Both MEA and PSC advise that they would need to hire additional staff as a result of the bill. MEA advises that it would need to hire one program manager and one senior program analyst to develop and update the required plan. PSC advises that it would need to hire at least two regulatory economists to evaluate plans submitted by MEA and other entities.

Legislative Services disagrees with this assessment. MEA was established, in part, to promote the conservation and efficient use of energy and to evaluate and coordinate energy-related policies and activities. Given MEA's overall mission, and the fact that the plan is only required to be updated every two years, it is assumed that the development of the plan and its updates could be handled with existing resources.

Until plans are actually submitted to PSC, the need for any additional staff within that agency is also unjustified. First, the plan submitted by MEA is only required to be updated every two years. Second, under current law, PSC is already required to review and approve energy efficiency and conservation programs submitted by electric and gas companies.

To the extent existing staff proves insufficient to develop and review plans, MEA and PSC may request additional staff through the annual budget process.

Energy Efficiency Programs

The bill does not establish a funding source to implement any energy-efficiency programs approved as a result of the bill. According to MEA, funding for such programs could come from numerous sources such as general funds, special funds, federal funds, rate increases approved by the PSC through its existing rate-setting process, or additional funding mechanisms proposed in future legislation. The extent to which funding for such programs will be needed depends on the specific plans approved as a result of the bill, meaning that an estimate of any increase in State expenditures cannot be made at this time. Funding levels and mechanisms will be included in the biennial report submitted to the General Assembly.

Additional Information

Prior Introductions: Bills addressing energy efficiency programs were introduced as SB 654 (2004), SB 373 (2003), SB 541/HB 1332 (2002), and SB 688/HB 1322 (2001). SB 654 of 2004 passed the Senate with amendments but received an unfavorable report by the House Economic Matters Committee. SB 373 of 2003 was heard by the Senate Finance Committee, which took no action. SB 541 of 2002 was reported unfavorably from the Senate Finance Committee, and HB 1332 was withdrawn. SB 688/HB 1322 of 2001 both received unfavorable reports.

Cross File: SB 397 (Senators Frosh and Middleton) – Finance.

Information Source(s): Maryland Energy Administration, Public Service Commission, Office of People's Counsel, American Council for an Energy-Efficient Economy, Department of Legislative Services

Fiscal Note History: First Reader - February 24, 2005
mam/hlb Revised - House Third Reader - April 6, 2005

Analysis by: Lesley G. Cook

Direct Inquiries to:
(410) 946-5510
(301) 970-5510