

Department of Legislative Services  
Maryland General Assembly  
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 1104

(Senator Frosh)

Finance

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**Electric Industry Restructuring - Extension of Obligation to Provide Standard Offer Service and Energy Efficiency Measures and Services**

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This bill extends an electric company's obligation to provide standard offer service (SOS) and requires solicitation of bids for specified "energy efficiency measures and services" at the same time as bids for electricity supply are obtained.

The bill takes effect July 1, 2006.

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**Fiscal Summary**

**State Effect:** To the extent that energy efficiency measures and services reduce the consumption of energy usage, State expenditures for electricity could decrease. The bill's requirements could be handled with existing budgeted resources.

**Local Effect:** This bill could have a significant impact on municipal utilities; however, the actual impact could not be determined due to the limited time frame for analysis of this bill. To the extent that the awarding of energy efficiency measures and services reduces the consumption of energy usage, expenditures for electricity could decrease. **This bill could impose a mandate on a unit of local government.**

**Small Business Effect:** Potential minimal.

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**Analysis**

**Bill Summary:** The bill requires that on or after June 1, 2007, when an electric company solicits bids for competitive selection of electricity suppliers to provide SOS, the electric company must also solicit proposals for "energy efficiency measures and services" with

projected and verifiable energy savings of at least 1% of the total retail load included in the company's request for proposals. "Energy efficiency measures and services" is defined to include equipment, products, and services, alone or in combination, that achieves and sustains reductions in electric energy use that are installed or implemented in Maryland, either on the premises of end-users of electricity or on the electric distribution system. An electric company must review and evaluate the bids for energy efficiency measures at the same time that it evaluates bids received for electricity supply. The Public Service Commission (PSC) must develop criteria to evaluate the bids. The criteria may allow for the assignment of a capacity value for energy efficiency measures and services.

An electric company must compare the annualized cost of energy savings included in each eligible bid for energy efficiency measures and services with the price for the electricity supply, including any delivery charges assessed on the electricity by the Federal Energy Regulatory Commission (FERC) or by PJM Interconnection, LLC. If the annualized cost is less than the cost of electricity and associated delivery charges, the electric company must select that bid for energy efficiency measures and services prior to selecting a higher cost bid for electricity supply. PSC must adopt regulations by October 1, 2006, establishing periods to capitalize the cost of energy efficiency measures and services and the appropriate period for cost recovery for each electric company.

**Current Law:** As of July 1, 2000, all customers of electric companies have the opportunity for choice of electric suppliers. However, a customer has the option to remain with the supplier of the electric utility under SOS. Any obligation of the electric company to continue to offer SOS expired on July 1, 2003 unless PSC found that the market was not competitive. Then PSC could extend the requirement to provide SOS to residential and small commercial customers at a market price that permits recovery of the verifiable, prudently incurred costs to procure or produce the electricity plus a reasonable return. PSC is to reexamine whether the market is competitive annually. An electric company may procure the electricity needed to meet its SOS from any electricity supplier, including an affiliate of the electric company.

**Background:** To provide SOS, PSC has implemented a process for auctions of blocks of electric load at various times of year and times of day. The electric companies conduct three or four auctions involving offers of load blocks of one, two, and three years' duration on which all other contract terms except price are identical. PSC, the Office of People's Counsel, and an independent market monitor oversee the auction process to ensure against collusion. At the conclusion of the auctions, the prices of the successful bids are blended to arrive at the resulting rate for each class of consumer.

Based on the recent bidding process of three-year terms for the market priced SOS, BGE rates will increase by an average of 72% beginning in July 2006. The average bill will

increase by 39% for PEPCO residential customers and by 35% for Delmarva Power and Light residential customers.

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. As a result, most have diminished or eliminated energy efficiency programs. According to the American Council for an Energy Efficient Economy, energy efficiency spending by utilities peaked at \$113 million in 1995 and declined to \$17 million in 1999. However, the Maryland Energy Administration (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.

**Local Fiscal Effect:** This bill would have a significant impact on municipal utilities as it requires them to solicit bids for energy efficiency measures and services and award those bids in specified circumstances. However, the actual impact cannot be determined at this time. Legislative Services was unable to obtain information for these utilities in time for the publication of this fiscal and policy note. As information is obtained, the note will be updated.

There are currently five municipal operated utilities that could be affected by this bill: Berlin, Easton, Hagerstown, Thurmont, and Williamsport.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland Energy Administration, Public Service Commission, Office of People's Counsel, Maryland Municipal League, Department of Legislative Services

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