

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 1062
Economic Matters

(Delegate Stein, *et al.*)

Alternative Energy Acceleration Act

This bill increases the percentage of Tier 1 renewable energy that an electricity supplier must include in the Renewable Energy Portfolio Standard (RPS).

Fiscal Summary

State Effect: State expenditures on electricity would be impacted to the extent that rates for electricity are affected.

Local Effect: Local government expenditures on electricity would be impacted to the extent that rates for electricity are affected.

Small Business Effect: An increase in RPS requirements would benefit businesses producing equipment or providing services in the renewable energy industry.

Analysis

Bill Summary: Beginning in 2008, the existing Tier 1 renewable energy requirements are increased. By 2019, Tier 1 renewable energy must equal 15% of the portfolio of each electricity supplier in Maryland.

Renewable Energy Portfolio Standards

<u>Year</u>	<u>Current Tier 1</u>	<u>HB 1062 Tier 1</u>
2007	1%	1%
2008	2%	3%
2009	2%	4%
2010	3%	5%
2011	3%	6%
2012	4%	7%
2013	4%	8%
2014	5%	9%
2015	5%	10%
2016	6%	11%
2017	6%	12%
2018	7%	13%
2019	7.5%	15%

Current Law: RPS was established with the intent of recognizing the economic, environmental, fuel diversity, and security benefits of renewable energy resources, establishing a market for electricity from those resources in Maryland, and lowering consumers' cost for electricity from renewable sources. RPS is implemented by the Public Service Commission (PSC) and applies to all retail electricity sales in the State by electricity suppliers, subject to certain exceptions.

An electricity supplier must meet RPS by accumulating renewable energy credits (commodities equal to the renewable energy generation attributes of one megawatt-hour of electricity) created from various renewable energy sources classified as Tier 1 and Tier 2 renewable sources. Tier 1 renewable sources include solar, wind, qualifying biomass, methane from the anaerobic decomposition of organic materials in a landfill or wastewater treatment plant, and geothermal sources. Tier 2 renewable sources include hydroelectric power other than pump storage generation, incineration of poultry litter, and waste-to-energy sources.

Electricity suppliers not able to accumulate enough renewable energy credits must pay a specified amount per kilowatt hour for any shortfall from RPS. These compliance fees are paid into the Maryland Renewable Energy Fund, the money from which is intended to be used to make loans and grants for the creation of renewable energy sources. Electricity companies have been allowed to apply for retroactive renewable energy

credits for Tier 1 or Tier 2 energy generated in 2004 or 2005. These renewable energy credits can be banked for up to three years, so they can be used for compliance year 2007.

Background: RPS was established by Chapters 487 and 488 of 2004 and was first applicable to electricity sales in 2006. The Maryland Energy Administration is required to publish an update on the status of the implementation of RPS by February 1 of each year. The first compliance year of RPS concluded December 31, 2006. Data from electricity suppliers is due by April 1, 2007 so annual compliance cannot be evaluated at this time.

PSC advises that the cost to purchase renewable energy credits is well below the cost of compliance fees that would have to be paid for a shortfall and therefore expects most electricity suppliers to meet RPS rather than pay compliance fees in fiscal 2007. This is partially due to the availability of retroactive credits. Collection of compliance fees in fiscal 2008 and future years should generally depend on the market price and availability of renewable energy credits.

A recent analysis by the Department of Natural Resources' Power Plant Research Program of available Tier 1 and Tier 2 resources indicates that there are ample Tier 1 and Tier 2 resources in PJM and adjacent states to satisfy Maryland's requirements through 2019. However, beginning in 2011 for Tier 1 and in 2012 for Tier 2, there may be insufficient resources in PJM to satisfy the combined requirements of Pennsylvania, New Jersey and Delaware, especially if New Jersey moves forward with plans to increase its RPS to 18% by 2020.

A 2004 analysis of a proposed 20% RPS requirement prepared for the New Jersey Board of Public Utilities – Office of Clean Energy by Rutgers University and the Center for Energy, Economic & Environmental Policy, found that under the most likely scenario RPS would raise electricity prices by 3.7% in year 2020 and would have a negligible impact on the growth of New Jersey's economy. The proposed 20% RPS would lower natural gas prices for consumers in New Jersey by reducing the burning of the fuel in power generation. Also, under the 20% RPS, the location in New Jersey of all of the manufacturing, operations, and maintenance facilities and employees needed to support the renewable energy infrastructure would add 11,700 jobs and attenuate economic benefits to the New Jersey economy.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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Analysis by: Erik P. Timme

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