

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 562

(Senator Frosh)

Finance

Electric Companies - Energy Efficiency and Conservation Measures and Services

This bill requires that by June 1, 2008, each electric company must procure or provide for its residential customers cost-effective energy efficiency conservation measures and services with projected and verifiable savings of at least 12% of the total residential retail energy consumed during 2006 by the end of 2016. Conservation programs should be included in procurement for Standard Offer Service.

The Public Service Commission (PSC) is required to (1) adopt standards for appropriate cost recovery for these programs; (2) remove disincentives for an electric company to invest in measures to promote energy efficiency; and (3) create shareholder incentives that make an electric company's investments in measures to promote energy efficiency as financially attractive as other types of investments made by the electric company.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: None. PSC indicates that additional responsibilities could be handled with existing resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Electric companies are required to develop and implement programs and services to encourage and promote the efficient use and conservation of energy by consumers, gas companies, and electric companies. PSC must adopt rate-making policies that provide cost recovery and, in appropriate circumstances, reasonable financial incentives for electric companies to establish programs and services that encourage and promote the efficient use and conservation of energy.

Background: As a result of restructuring, electric companies lack financial incentive to invest in energy efficiency programs. In the short term, deregulated utilities can best serve shareholders by reducing operating expenditures and maximizing electricity sales to recover fixed costs and increase profits. As a result, most companies have diminished or eliminated energy efficiency programs. According to the American Council for an Energy Efficient Economy, energy efficiency spending by utilities has decreased by over 50% in the past three years.

According to *Maryland's Energy Future – Energy Transition Report 2007*, prepared for Governor Martin O'Malley, prior to utility restructuring, Maryland had some of the most ambitious and successful energy conservation programs in the nation. These programs:

- collected and spent over \$500 million from 1991-1998, supported by utility bill assessments of over \$0.002/kwh at their peak.
- achieved documented savings of 3.5% of electric sales in 1998.

Virtually all of these programs were eliminated in 1998. From 1992 to 1998 electric sales per residential customer grew of 0.8%. From 1998 to 2004, sales per residential customer grew by 2.4%.

Additional Information

Prior Introductions: None.

Cross File: HB 631 (Delegates Feldman, *et al.*) – Economic Matters.

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

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