

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 417

(Senator Edwards, *et al.*)

Finance

Economic Matters

Public Service Commission - Energy Efficiency and Conservation Programs and Services - Customer Notification and Report

This emergency bill requires each electric and gas company to annually notify affected customers of the energy efficiency and conservation charges imposed and the benefits conferred by (1) publication on each company's web site; and (2) inclusion with billing information such as a bill insert or bill message. By February 1, 2009 and every two years thereafter, the Public Service Commission, in consultation with the Maryland Energy Administration, must report to the General Assembly on (1) the status of energy efficiency and conservation programs and services; and (2) a recommendation on the appropriate funding levels for these programs. In determining whether a program or service encourages and promotes energy efficiency and conservation, PSC must consider four factors: the impact on jobs, the impact on the environment, the impact on rates, and the cost-effectiveness.

Fiscal Summary

State Effect: None. The bill would not materially affect PSC operations or finances.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: PSC is required to evaluate the cost effectiveness of the investments by electric companies in energy conservation to reduce electrical demand, and in renewable energy sources to help meet electric demand. This includes:

- the promotion and development of a building audit and weatherization program;
- utilization of renewable energy sources;
- promotion and utilization of electricity from cogeneration and wastes; and
- widespread public promotion of energy conservation programs.

Gas and electric utilities in Maryland are required to develop and implement energy efficiency and conservation programs, subject to review and approval by PSC. PSC can require a utility to establish any such program or service that PSC finds to be both cost effective and appropriate. PSC is required to adopt ratemaking policies for programs that encourage energy efficiency and conservation. PSC is empowered to consider reasonable financial incentives to participating utilities.

Chapter 5 of 2007 (SB 400) required PSC to consider providing a process, at the time bids by the investor-owned electric utility for electric supplies are obtained for standard offer service (SOS), to solicit bids for the procurement of cost-effective energy efficiency and conservation programs and services if these are less expensive than electricity generation. SOS service is designed to accommodate residential and small commercial customers that have not shopped or cannot shop for electric power supplies, while the competitive retail market develops and electric suppliers enter the retail markets to supply electricity products.

In 2007, PSC approved a rate adjustment decoupling mechanism for both PEPCO and Delmarva Power to account for unanticipated changes in usage due to severe weather, customer response to supply price increases, or State-mandated energy efficiency programs.

Background: Governor O'Malley has a goal to reduce overall electricity consumption and peak demand by 15% by 2015, using 2007 as a base year. Energy efficiency and conservation programs seek to conserve energy as well as reduce peak demand. There can be significant barriers to consumer investment in energy efficiency, including but not limited to, lack of awareness, high upfront point-of-sale costs in relation to the long-term reductions in consumer operating costs (*i.e.*, recognize life-cycle economics), and energy price volatility. While the market does provide many opportunities for energy efficiency investments, targeted programs can help promote greater use of energy-efficient products.

With the separation of generation or commodity purchases of natural gas from the regulated distribution or pipeline systems, the regulated utility's ability to undertake energy efficiency and conservation programs is greatly reduced.

Over three-quarters of the net energy Maryland residences consume is electricity and natural gas. By end use, over 70% of primary energy consumption is associated with five end uses: space heating; water heating; space cooling; refrigeration; and lighting.

Currently, electric utilities in Maryland are required to develop and implement energy efficiency and conservation programs, subject to review and approval by PSC. PSC measures the benefits (*i.e.*, the energy savings) versus the cost of a program to determine if the program should be implemented and a surcharge placed on customer rates. PSC also determines the appropriateness of the program for utility customers and considers the impacts on jobs, the environment, rates, and costs. In determining the usefulness of a program, PSC undertakes a series of cost effectiveness tests each designed to measure the benefits in relationship to costs.

In 2007, PSC approved a series of "fast-track" programs for the four electric utilities in 2007. All four utilities developed various compact fluorescent light (CFL) programs and initiated residential energy awareness campaigns. CFLs are advertised as using about 75% less energy a month and last 10 times as long as a traditional incandescent light bulb, thereby saving customers between \$30 and \$60 over the life of the unit. BGE also undertook rebate programs for residential appliance and window air conditioning efficiency upgrades.

In January 2008, Allegheny Power stopped a CFL mailing program sponsored with Energy Star. Allegheny Power undertook the program as a PSC-approved effort, and sent two CFLs to 220,000 Maryland residential customers. To recover program costs (*e.g.*, bulbs, postage, and packaging), Allegheny Power was allowed to include an energy conservation surcharge of 96 cents per month for 12 months, totaling \$11.52. However, residential customers expressed concerns with respect to the incurred costs for the program. In response, the electric utility apologized, gave the bulbs away free of charge, stopped collecting the surcharge, and undertook efforts to develop a mechanism with PSC approval to refund all monies collected since the energy conservation surcharge began in October 2007.

Additional Information

Prior Introductions: None.

Cross File: HB 608 (Delegate Kelly, *et al.*) – Economic Matters.

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

Fiscal Note History: First Reader - February 15, 2008
mcp/hlb Revised - Senate Third Reader - April 1, 2008

Analysis by: Michael P. Lee

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