

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 1285
Economic Matters

(Delegate Kelly)

**Public Service Commission - Energy Efficiency - Cost Recovery Surcharge
Prohibition**

This emergency bill prohibits the Public Service Commission (PSC) from allowing a gas company or electric company to impose a surcharge or any other additional fee on residential ratepayers as part of cost recovery in addition to the adopted rate.

Fiscal Summary

State Effect: PSC can implement the requirement with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Subject to review and approval by PSC, each gas company and electric company is required to implement programs and services to encourage and promote the efficient use and conservation of energy by consumers, gas companies, and electric companies. PSC may require each gas company and electric company to establish any program or service that PSC deems appropriate and cost effective to encourage and promote the efficient use of conservation of energy. PSC is required to adopt rate-making policies that provide cost recovery and, in appropriate circumstances, reasonable financial incentives for gas companies and electric companies to establish programs and services that encourage and promote the efficient use and conservation of energy.

The EmPOWER Maryland Energy Efficiency Act of 2008 (Chapter 131), requires electric companies to procure and provide customers with energy conservation and energy efficiency programs and services that are designed to achieve targeted electricity savings and demand reductions for specified years through 2015, as discussed below. Electric company plans must include program descriptions, anticipated costs, projected electricity savings, and other information PSC requests. Electric companies must consult with Maryland Energy Administration (MEA) regarding cost recovery, program design, and adequacy to meet the target reductions. PSC must review the plans for adequacy and cost effectiveness in achieving the electricity savings and demand reduction targets.

Using 2007 as a base year, there is a State goal of achieving a 15 % reduction in per capita electricity consumption and a 15% reduction in per capita peak demand by the end of 2015. Beginning with the 2008 calendar year and each year thereafter, PSC must calculate the per capita electricity consumption and peak demand for the year. On or before December 31, 2008, PSC, to the extent it determines that cost effective energy efficiency and conservation programs are available for each affected class, must require electric companies to procure and provide customers with a cost effective demand response program that is designed to achieve targeted electricity savings and demand reduction through 2015. Utility-based reductions of at least 5% are required in both electricity consumption and peak demand by 2011, and utility programs must reduce electricity consumption by 10% by 2015. Additional per capita reductions in electricity consumption of 5% may be achieved independent of the law, through MEA efforts, to obtain the overall 15% reduction in per capita electricity consumption by 2015.

Electric companies must submit plans for obtaining the targeted reduction every three years and must provide annual updates on progress. PSC must monitor progress to achieve the best possible results and may require an electric company to include specific measures designed to achieve the targeted reductions. 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. At least once each year each electric or gas company must notify customers of the energy efficiency and conservation charges imposed and benefits conferred.

Background: In 2007, prior to the EmPOWER Maryland Act, PSC approved a series of “fast-track” programs for the four electric utilities. All four utilities developed various compact fluorescent light (CFL) programs and initiated residential energy awareness campaigns. A CFL is 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.

Pursuant to the EmPOWER Maryland Act, five electric companies (Allegheny Power, BGE, Delmarva Power & Light, PEPCO, and Southern Maryland Electric Cooperative) have submitted proposed energy efficiency and demand response plans to PSC. Each plan specifies specific measures that will be taken to meet the goals of EmPOWER Maryland and the proposed surcharges necessary to obtain those goals. Proposed energy efficiency surcharges for residential customers range up to \$1.24 per month in 2010 and \$4.43 per month in 2015. Proposed demand response surcharges range up to \$1.24 per month in 2010 and \$2.30 per month in 2015. The monthly surcharge is based a residential customer using 1,000 kWh per month. Southern Maryland Electric Cooperative uses a residential/small commercial customer using 1,300 kWh to estimate the monthly surcharge.

PSC has accepted a revised retail electric tariff and gas efficiency tariff for BGE which includes a one-year cost recovery surcharge for energy efficiency and conservation programs for 2009, as approved by PSC in Case Number 9154. The surcharge must be listed as a separate line item on customer bills. PSC directed all other utilities to issue requests for proposals for each of the services necessary to carry out energy efficiency programs and to submit updated cost and cost-effectiveness analyses and projected energy and demand savings for each of the approved programs to PSC for approval before implementation.

Additional Comments: The EmPOWER Maryland Act of 2008 requires each electric company to meet specific goals for reducing energy consumption. A surcharge for energy efficiency programs, as approved by PSC, allows reasonable cost recovery for programs to meet State mandated reductions in energy consumption. Prohibiting a surcharge for energy efficiency programs may impede progress in meeting the goals established through the EmPOWER Maryland Act of 2008.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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