

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

Senate Bill 910 (Senators Lenett and Rosapepe)

Finance and Education, Health, and
Environmental Affairs

Comprehensive Energy Plan

This bill requires the Maryland Department of Planning (MDP) to prepare a comprehensive energy plan assessing the State's energy needs and providing recommendations on how to meet those needs. In developing the comprehensive energy plan MDP must solicit and consider input from specified State agencies and other specified entities. MDP must submit an interim report on the plan to the Governor and the General Assembly by July 1, 2011. The final report must be submitted by December 31, 2011.

Fiscal Summary

State Effect: General fund expenditures increase by at least \$438,500 in FY 2011 and by \$253,400 in FY 2012 for consulting and contractual employees to assist MDP in completing the comprehensive energy plan; depending on the analyses needed, costs could be considerably higher. Special fund expenditures from the Environmental Trust Fund increase by \$75,000 in FY 2011 and by \$50,000 in FY 2012 for the Department of Natural Resources (DNR) to contribute to the comprehensive energy plan. Revenues are not affected.

| (in dollars) | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|----------------|-------------|-------------|---------|---------|---------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 438,500 | 253,400 | 0 | 0 | 0 |
| SF Expenditure | 75,000 | 50,000 | 0 | 0 | 0 |
| Net Effect | (\$513,500) | (\$303,400) | \$0 | \$0 | \$0 |

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: In developing the comprehensive energy plan, MDP must solicit and consider input from DNR, the Public Service Commission (PSC), the Maryland Energy Administration (MEA), the Maryland Department of the Environment (MDE), the Maryland Department of Agriculture (MDA), the Office of People's Counsel (OPC), organizations representing environmental interests in the State, and any other relevant interest, including industry and other governmental units.

The comprehensive energy plan must assess the State's current energy supply and demand and provide estimates of the State's long-term energy supplies and needs. The plan must identify reasonable options to meet the State's long-term energy needs, including how well the option would promote long-term cost stability; the reliability of the electricity supply; minimization of adverse environmental impacts; and consistency with the State's environmental laws and goals. The plan must examine and identify targets to deploy and use energy efficiency and renewable energy programs and tools and must explore policies and programs to address electricity grid congestion, transmission, and distribution issues. It must also identify energy resource development options; discuss the development of new technologies; and recommend any necessary legislation.

Before taking final action on an application for a certificate of public convenience and necessity (CPCN), PSC must consider the effect of the proposed generating station or overhead transmission line on consistency with the State's environmental goals and laws, and must consider the recommendations made by MDP in the comprehensive energy plan developed pursuant to the bill.

Current Law: PSC is required to prepare and forward a 10-year plan to the Secretary of Natural Resources on an annual basis. The 10-year plan is a compilation of information on long-range plans of electric utilities in the State. In the 10-year plan, PSC must include information on possible and proposed sites, including the associated transmission routes, for the construction of electric plants in the State. PSC must also include information in the 10-year plan on current and projected efforts by electric companies and PSC to moderate overall electric generation demand and peak demand through electric companies' promotion of energy conservation by customers and through the electric companies' use of alternative energy sources, including transmission congestion.

When considering a CPCN application for construction of a generating station or overhead transmission lines, PSC must consider the stability and reliability of the electric system; economics; esthetics; historic sites; aviation safety; when applicable, air and water pollution; and the availability of means for the required timely disposal of wastes produced by a generating station.

The Electric Customer Choice and Competition Act of 1999 (Chapters 3 and 4) facilitated the restructuring of the electric utility industry in Maryland. The Act required electric companies to divest themselves of generating facilities or to create a structural separation between the unregulated generation of electricity and the regulated distribution and transmission of electricity. Some electric companies created separate entities to operate unregulated and regulated businesses under a single holding company structure and other companies divested generation facilities. With the elimination of the generation functions from regulation, PSC no longer determines the need for additional supply sources as was the case prior to implementation of restructuring.

Background: Prior to electric industry restructuring in 1999, PSC was responsible for integrated resource planning, including ordering construction of additional generating facilities. Since deregulation, development of generating facilities in the State is done privately. In order to meet long-term anticipated demand in the State for standard offer service and other electricity supply, PSC may require or allow an investor-owned electric company to construct, acquire or lease, and operate its own generating facilities and transmission facilities necessary to interconnect the generating facilities with the electric grid, subject to appropriate cost recovery. Evaluation of the energy needs in the State, including promotion of renewable energy, is performed by a number of State agencies; however, comprehensive planning authority is not granted to PSC or other State agencies.

In January 2010 MEA completed the Strategic Energy Outlook, which was the work of an ad-hoc advisory committee composed of energy experts and stakeholders from across the State. The final report did not address comprehensive energy planning, but did focus on how Maryland is meeting energy goals to reduce consumption, improve markets for renewable energy, reduce greenhouse gas emissions, and grow a green economy with a robust workforce.

The Power Plant Research Program (PPRP) within DNR evaluates how the design, construction, and operation of power plants and transmission lines impact Maryland's environmental, socioeconomic, and cultural resources. PPRP plays a key role in the licensing process for power plants and transmission lines by coordinating the State agencies' review of new or modified facilities and developing recommendations for license conditions.

State Fiscal Effect:

Maryland Department of Planning

General fund expenditures increase by at least \$438,498 in fiscal 2011, which accounts for the bill's October 1, 2010 effective date. This estimate reflects costs for contractual

services and contractual employees to assist MDP in developing the comprehensive energy plan, as described below.

Developing a comprehensive energy plan will require MDP to perform analysis to calculate load growth, estimate the impact of transmission upgrades, and consider the price impacts of additional generating facilities. The cost of economic modeling that is required by the bill will most likely be sourced from external consultants and will total at least \$350,000 in fiscal 2011 and \$150,000 in fiscal 2012. Based on the cost of similar studies performed by PSC in past years, the Department of Legislative Services (DLS) advises that depending on the amount of modeling and analysis conducted, the costs of such consulting expenses may be considerably more than \$500,000 total.

Additionally, MDP indicates that two regular full-time positions are needed to implement this bill. However, DLS advises that the added responsibilities incurred by this legislation are not permanent and thus can be performed by contractual employees. The estimate reflects the cost of hiring a contractual principal planner and a contractual planner to coordinate the completion of the comprehensive energy plan; evaluate input from other State agencies; assess the analysis performed by consultants; and make recommendations on proposed legislation. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

| | |
|---|------------------|
| Contractual Positions | 2 |
| Salaries and Fringe Benefits | \$78,953 |
| Operating Expenses | 815 |
| Equipment | 8,730 |
| Consulting Services | 350,000 |
| Minimal FY 2011 MDP Expenditures | \$438,498 |

Fiscal 2012 expenditures reflect full salaries with 4.4% annual increases and 6.8% employee turnover; and 1% annual increases in ongoing operating expenses. It assumes that, although the final report on the plan is due by December 31, 2011, the contractual employees are needed through the remainder of fiscal 2012 to testify at hearings and generally support MDP on any proposed legislative recommendations. To the extent the contractual employees are only needed through December 31, 2011, fiscal 2011 expenditures would be less.

Department of Natural Resources

DNR is required to provide input on the development of the plan. In order to assess the economic modeling and resulting forecasting documents used by MDP in developing the plan, DNR's PPRP anticipates the need for consultants. As a result, special fund expenditures from the Environmental Trust Fund increase by \$75,000 in fiscal 2011 and \$50,000 in fiscal 2012.

Other Impacts

It is assumed that the other State agencies, including PSC, MEA, MDE, MDA, and OPC, required to provide input to MDP on the development of the comprehensive energy plan can do so with existing budgeted resources. It is also assumed that PSC can consider the additional environmental and energy issues required by the bill before taking final action on an application for a CPCN with existing resources.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of Agriculture, Department of Natural Resources, Maryland Department of Planning, Maryland Department of the Environment, Maryland Energy Administration, Office of People's Counsel, Public Service Commission, Department of Legislative Services

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