HB 522

Department of Legislative Services

Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 522 (Delegates Manno and Hecht)
Economic Matters

Public Service Commission - Report on the State's Long-Term Energy Needs

This bill requires the Public Service Commission (PSC) to submit a report analyzing options to meet the State's long-term energy needs for at least the following 20 years. The report is due to the Governor and the General Assembly by December 1, 2010, and must be completed every two years thereafter. PSC may employ a consulting firm to do the report and is authorized to impose a special assessment on electric companies and electricity suppliers to pay for the costs of the report, as provided in the bill.

Fiscal Summary

State Effect: Special fund revenues to the Public Utility Regulation Fund increase by $3.0 million in FY 2011 and by $500,000 in FY 2013 and every two years thereafter from the special assessment. Special fund expenditures from that fund increase by $3.0 million in FY 2011 for consulting expenses to develop the required report; expenditures increase by $500,000 in FY 2013 and every two years thereafter to update the report. Special fund expenditures from the Environmental Trust Fund increase by $110,000 in FY 2013 and every two years thereafter for the Department of Natural Resources (DNR) to evaluate the report. Electric expenditures (all funds) may increase minimally.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
SF Revenue	$3,000,000	$0	$500,000	$0	$500,000
SF Expenditure	$3,110,000	$0	$610,000	$0	$610,000
GF/SF/FF Exp.	-	-	-	-	-
Net Effect	($110,000)	$0	($110,000)	$0	($110,000)

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

Local Effect: Minimal.

Small Business Effect: Minimal.

Analysis

Bill Summary: In the report, PSC must provide estimates of the State's long-term energy needs and identify all reasonable options for meeting these needs. PSC must rank options with regard to long-term cost stability, reliability of supply, consistency with the State's environmental laws and goals, and minimization of adverse environmental impacts in that order and make recommendations based on those rankings.

In developing the report, PSC must consider input from the Maryland Energy Administration (MEA); the Maryland Department of Planning; the Maryland Department of the Environment; DNR; the Office of People's Counsel; electric companies and suppliers; large electric consumers; organizations representing environmental interests in the State; organizations representing consumer protection interest in the State; and any other relevant interests. PSC must provide an opportunity for public comment and hold a public hearing on the report.

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 must consider the recommendations made by PSC in the report required by the bill.

Current Law: PSC is required to 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 (SOS) 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:

Public Service Commission

The 10-year plan currently completed by PSC annually is mostly a compilation of long-range plans submitted by Maryland utilities and an assessment of these plans. Developing an integrated resource planning approach, as described in the bill, will require PSC 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, as authorized by the bill. Based on the cost of similar studies performed in the past, PSC estimates that costs may range between $2 million and $4 million for the initial analysis.

If PSC uses consultants to complete the report, as is anticipated, special fund expenditures from the Public Utility Regulation Fund may increase by $3.0 million in fiscal 2011. The Department of Legislative Services (DLS) advises that there will likely be an ongoing cost to update the report every two years. As a result, special fund expenditures from the Public Utility Regulation Fund increase by at least $500,000 in fiscal 2013 and every two years thereafter. It should be noted that PSC advises that, due to the October 1, 2010 effective date, the report deadline of December 1, 2010, will not be able to be met. Nevertheless, the estimate assumes the initial report is completed in fiscal 2011.

Revenues to the Public Utility Regulation Fund increase from the special assessment on electric companies and suppliers to cover the cost of completing the required report. As a result, special fund revenues from the special assessment increase by $3.0 million in fiscal 2011 and by $500,000 in fiscal 2013 and every two years thereafter.

Department of Natural Resources

DNR is required to provide input on development of the required report. In order to assess the economic modeling and resulting forecasting documents used by PSC to complete the report, PPRP anticipates the need for consultants. As a result, special fund expenditures from the Environmental Trust Fund increase by $110,000 in fiscal 2011 and every two years thereafter. It is assumed that DNR’s costs could not be covered by the special assessment, but to the extent they can, special fund revenues would increase correspondingly to offset those costs.

Other Impacts

It is assumed that the other State agencies that provide input to PSC on the required report can do so with existing budgeted resources.

A special assessment on electric companies and suppliers will be most likely be passed on to all customers in the State. As a result, State expenditures for electricity may increase minimally.

Additional Comments: A special assessment on electric companies and suppliers will most likely be passed on to all electric customers in the State, resulting in a minimal increase in electric rates. There are approximately 2.2 million electric distribution service accounts in the State. On a per-customer basis, the effect of the surcharge is expected to be minimal.

Implementing a long-term energy plan may result in the State meeting its energy needs and environmental goals more efficiently and effectively than under the current regulatory structure. To the extent that developing a long-term energy plan results in efficiencies in meeting energy needs and environmental goals, electric rates may be positively affected in the long-run.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 15, 2010
mpc/lgc

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