Department of Legislative Services

Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 933 (Delegate Parrott, *et al.*)
Economic Matters

Energy Efficiency and Demand Management Programs and Services - Repeal

This bill repeals specified provisions related to energy efficiency and demand management programs.

Fiscal Summary

State Effect: The Public Service Commission (PSC) and the Maryland Energy Administration (MEA) may each have fewer administrative requirements due to the bill. However, given current staffing constraints at both agencies, it is unlikely that any positions are eliminated due to the bill. Rather, it is likely that staff are assigned additional duties elsewhere in each agency. The effect on expenditures by the State for electricity is unclear, as discussed below.

Local Effect: The effect on expenditures by local governments for electricity is unclear, as discussed below.

Small Business Effect: Meaningful.

Analysis

Bill Summary: The bill repeals provisions requiring PSC to establish the EmPOWER Maryland Program and associated requirements. The bill also repeals an electric vehicle pilot program. However, a presently existing obligation or contract right may not be impaired in any way by the bill.

Current Law: Subject to review and approval by PSC, each gas company and electric company is 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. Similarly, PSC must:

- 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 and conservation of energy;

- 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; and

- ensure that adoption of electric customer choice does not adversely impact the continuation of cost-effective energy conservation and efficiency programs.

These requirements existed before the General Assembly passed Chapter 131 of 2008 (the EmPOWER Maryland Energy Efficiency Act). The Act established targeted reductions in per capita energy consumption and demand by 2015 from a 2007 baseline. These provisions are also repealed by the bill.

PSC must supervise and regulate the public service companies subject to its jurisdiction to ensure their operation in the interest of the public and promote adequate, economical, and efficient delivery of utility services in the State without unjust discrimination. In supervising and regulating public service companies, PSC must consider the public safety, economy of the State, the conservation of natural resources, and the preservation of environmental quality. These provisions are not affected by the bill.

Background: The State's largest electric companies participate in the EmPOWER Program: Baltimore Gas and Electric (BGE), Delmarva Power and Light (DPL), Potomac Electric Power Company (Pepco), Potomac Edison (PE), and the Southern Maryland Electric Cooperative (SMECO). PSC sets individual goals for each electric company.

As mandated by Chapter 131, electric companies are responsible for a 10% reduction in per capita energy consumption and a 15% reduction in per capita peak demand by 2015. MEA is responsible for an additional 5% reduction in per capita energy consumption. The program is on track to meet the per capita peak demand goal (14.7% out of 15% in 2013) but substantial progress is necessary to meet the per capita electricity consumption goal (9.7% out of 15% in 2013).

As of the end of 2013, the electric companies had spent more than $988 million across all EmPOWER programs, saving a total of 3.3 million megawatt-hours and 1,538 megawatts.

The electric companies are authorized to collect a surcharge to fund their EmPOWER programs. The average monthly residential surcharges in 2013 are shown in **Exhibit 1**.

Exhibit 1
EmPOWER Average Monthly Residential Surcharges
2013

	Energy Efficiency and Conservation	**Demand Response**	**Dynamic Pricing**	**Total**
BGE	$2.00	$1.02	-	$3.02
Pepco	1.28	0.07	$0.46	1.81
PE	2.44	-	-	2.44
DPL	1.56	1.15	-	2.71
SMECO	3.17	2.30	-	5.47

Source: Public Service Commission

In the context of EmPOWER, demand response (DR) programs are primarily designed to reduce peak demand, while energy efficiency and conservation (EEC) programs are primarily designed to reduce the total amount of energy consumed.

DR programs commonly use a switch or thermostat to cycle a central air conditioning system or an electric heat pump to briefly curtail usage (*i.e.*, direct load control). By reducing or shutting off hundreds or thousands of air conditioners at the same time, electric companies can reduce their power needs by hundreds of megawatts when the power grid is under stress.

Residential EEC programs include discounted compact fluorescent lights and appliances; heating, ventilation, and air conditioning (HVAC) rebates; home energy audits; weatherization; and low-income programs. Commercial EEC programs are designed to encourage businesses to upgrade to more efficient equipment, such as lighting or HVAC, or improve their building performance through weatherization or building shell upgrades. For larger commercial buildings or industrial facilities, an electric company can customize its incentives for cost-effective improvements.

Planning for Next EmPOWER Maryland Cycle

Since calendar 2013, MEA and PSC have undertaken activities to move toward the next phase of EmPOWER Maryland, the period after the initial goal. In calendar 2014, MEA continued with workgroup processes and study activities that began in calendar 2013. In August 2014, MEA submitted the final products of some of these activities, including an avoided cost study and cost effectiveness framework, to PSC.

As part of its December 2014 order to approve the 2015-2017 utility programs, PSC directed that PSC staff, on behalf of the EmPOWER Planning Workgroup, file a report and recommendations related to the MEA proposal to implement performance-based shareholder incentives by April 15, 2015. PSC also ordered that a case be docketed for the investigation and development of energy efficiency financing proposals, with a status report due on April 15, 2015.

As of calendar 2013, MEA estimates that $780 million of electricity costs have been avoided as a result of the State's progress in meeting these goals. MEA anticipates that if the State meets the goals in calendar 2015, Maryland will have avoided electricity costs totaling $1.2 billion.

State Fiscal Effect: PSC and MEA each may have fewer administrative requirements due to the bill. However, given current staffing constraints at both agencies, it is unlikely that any positions are eliminated. Rather, it is likely that staff are assigned additional duties elsewhere in each agency. To the extent that this reduces the need for future staff, out-year special fund expenditures for PSC and MEA decrease.

The effect on expenditures by the State for electricity cannot be reliably estimated at this time, as the effect on electricity rates is unclear. PSC advises that the bill repeals the EmPOWER program and, therefore, prohibits the inclusion of any future electric company expenditures in the EmPOWER surcharge. The surcharge remains in effect, however, until previously incurred expenditures are recovered (costs are amortized over 5, 10, or 15 years, depending on the program).

In addition, nothing in current law nor the bill prohibits an electric company from continuing energy efficiency and conservation programs and seeking appropriate cost recovery from PSC. Likewise, nothing prohibits PSC from considering or granting appropriate cost recovery for these programs. The effect on future electricity rates, therefore, depends on whether cost recovery is sought by electric companies and granted by PSC and on the cost-effectiveness of the programs.

The Department of Legislative Services notes that current law (not affected by the bill) requires PSC to supervise and regulate the public service companies subject to its jurisdiction to (1) ensure their operation in the interest of the public and (2) promote adequate, economical, and efficient delivery of utility services in the State without unjust discrimination. In supervising and regulating public service companies, PSC must consider the public safety, economy of the State, the conservation of natural resources, and the preservation of environmental quality.

Finally, there is no effect on State expenditures due to the repeal of the electric vehicle pilot program. The pilot program authorized by PSC for BGE and Pepco is scheduled to expire after December 1, 2015.

Local Expenditures: The effect on expenditures by local governments for electricity cannot be reliably estimated at this time, as the effect on electricity rates is unclear for the reasons discussed above.

Small Business Effect: The effect on expenditures by small businesses for electricity cannot be reliably estimated at this time, as the effect on electricity rates is unclear for the reasons discussed above.

MEA advises that there are many industries with a high level of small businesses that benefit from the business opportunities that EmPOWER programs provide. These include electricians, plumbers, HVAC contractors, energy efficiency contractors, home builders, retail appliance sales companies, geothermal contractors, well drillers, and others that directly benefit from the business opportunities that EmPOWER programs provide. These companies are negatively affected if the quantity of installations or jobs is reduced due to the lack of EmPOWER programs. However, as discussed above, the bill does not prohibit an electric company from continuing energy efficiency and conservation programs and seeking appropriate cost recovery from PSC. Likewise, nothing prohibits PSC from considering or granting appropriate cost recovery for these programs.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Public Service Commission, Maryland Energy Administration, Baltimore Gas and Electric Company, Department of Legislative Services

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