SB 688

Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 688 (Senator Hershey)
Finance

Public Utilities - Renewable Energy Portfolio Standard - Revisions

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This bill extends "Tier 2" of the State Renewable Energy Portfolio Standard (RPS) indefinitely beyond its scheduled termination date at the end of 2018. "Tier 1" percentage requirements are reduced each year by 2.5%, leaving the total RPS percentage requirements unchanged at 20.4% in 2019 and 25% annually thereafter.

Fiscal Summary

State Effect: Under one set of assumptions, State expenditures (all funds) decrease by $228,000 in FY 2019 and by $456,000 annually thereafter due to lower electricity prices. Revenues are not affected.

(in dollars)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	$0	$0	$0	$0	$0
GF/SF/FF Exp.	(228,000)	(456,000)	(456,000)	(456,000)	(456,000)
Net Effect	$228,000	$456,000	$456,000	$456,000	$456,000

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

Local Effect: Local government expenditures for electricity decrease beginning in FY 2019. Revenues are not affected.

Small Business Effect: Potential meaningful.

Analysis

Current Law/Background: Maryland's RPS was enacted in 2004 to facilitate a gradual transition to renewable sources of energy. It operates on a two-tiered system with carve-outs for solar energy and offshore wind energy and corresponding renewable energy credits (RECs) for each tier. Electric companies (utilities) and other electricity suppliers must submit RECs equal to a percentage specified in statute each year or else pay a penalty equivalent to their shortfall.

Tier 1 sources include wind, geothermal, solar, and several others. Following the transfer of several sources to Tier 1, Tier 2 includes only large hydroelectric power plants. Chapters 1 and 2 of 2017 increased the Tier 1 percentage requirements from 20% by 2022 to 25% by 2020. The Tier 2 requirement, which is in addition to Tier 1, remains constant at 2.5% each year until ending after 2018.

In 2015, the most recent year for which data is available, 11.3% of Tier 1 Nonsolar RECs, 100% of Tier 1 Solar RECs, and 63% of Tier 2 RECs used for compliance were generated in Maryland. The remaining RECs were generated in surrounding states.

State Expenditures: The bill essentially replaces about 1.6 million Tier 1 RECs with Tier 2 RECs annually for the purpose of RPS compliance beginning in 2019. As Tier 1 RECs are more expensive than Tier 2 RECs, this reduces overall RPS compliance costs beginning in that year. In 2015, the average Tier 1 Nonsolar REC price was $13.87 and the average Tier 2 REC price was $1.71. Assuming this price difference going forward, overall RPS compliance costs decrease by $19.5 million annually beginning in 2019, which equates to about 30 cents per megawatt-hour. For context, an average residential customer uses about one megawatt-hour of electricity per month.

As an electric customer, the State purchases about 1.5 million megawatt-hours of electricity per year. Therefore, under these assumptions, State expenditures (all funds) decrease by about $228,000 in fiscal 2019, which accounts for a half-year effect, and by about $456,000 annually thereafter. The actual difference in annual RPS compliance costs due to the bill, and its subsequent effect on electric rates, may vary from this estimate, but it is unlikely that the price of Tier 1 RECs will be less than the price of Tier 2 RECs in any year.

Small Business Effect: Small businesses, especially those with relatively high electricity usage, benefit from reduced electricity prices beginning in fiscal 2019. For businesses with particularly high electricity needs, the impact could be meaningful.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Public Service Commission; Maryland Energy Administration; Department of Legislative Services

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