HB 982

Department of Legislative Services

Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 982 (Delegate Charkoudian, *et al.*)
Economic Matters

Public Utilities - Low-Income and Middle-Income Housing - Energy Performance Targets

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This bill requires the Public Service Commission (PSC) to require the Department of Housing and Community Development (DHCD) to procure or provide energy efficiency and conservation (EE&C) programs and services for electricity customers for the 2021-2023 EmPOWER Maryland Program cycle, subject to specified requirements. The EE&C programs and services must be designed to achieve a target annual incremental gross energy savings of at least 1.0% per year, compared to 2019, starting in 2021. Specified gas company merger proceeds must be used exclusively by DHCD beginning in fiscal 2021 to provide low-income residential weatherization. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: Special fund expenditures for the Maryland Energy Administration (MEA) increase by $19.8 million in FY 2021 and decrease by that amount in total from FY 2022 through 2024, reflecting the required transfer; special fund revenues for DHCD increase by $26.3 million in FY 2021, as discussed below. Special fund expenditures for DHCD increase significantly beginning in FY 2021 – DHCD estimates $30 million annually – to meet the bill’s enhanced energy savings requirements. Special fund revenues increase by an amount necessary to cover DHCD’s annual costs, net of special funds made available through the bill’s required transfer.

Local Effect: Local revenues and expenditures may be affected, as discussed below.

Small Business Effect: Meaningful.

Analysis

Current Law/Background:

EmPOWER Maryland

In 2008, the General Assembly passed the EmPOWER Maryland Energy Efficiency Act, which set target reductions of 15% in per capita electricity consumption and peak demand, respectively, by 2015 from a 2007 baseline. Legislation in 2017 extended the program through its 2018-2020 and 2021-2023 program cycles and established a new annual energy savings goal of 2.0% per year, based on each electric company's 2016 sales.

DHCD also participates in EmPOWER through two special fund programs: the Low Income Energy Efficiency Program (LIEEP) and the Multifamily Energy Efficiency and Housing Affordability (MEEHA) Program. LIEEP helps low-income households undertake energy conservation projects in their homes at no charge, while MEEHA promotes energy efficiency and affordability in the State's multifamily rental housing developments for low- and moderate-income households.

Approved program costs are recovered by electric companies on customer bills. For the average residential customer, the 2020 EmPOWER surcharge ranges between $5.63 and $8.30 per month, depending on the electric company. Historically, DHCD has represented approximately 5% to 10% of total program costs that are recovered through the surcharge.

Plans for the 2021-2023 program cycle must be submitted to PSC by September 1, 2020, with a PSC decision due by the end of 2020. By July 1, 2022, PSC must determine the advisability of maintaining current program metrics in subsequent program cycles – which PSC must authorize – beginning with the 2024-2026 cycle.

Altagas and Washington Gas Merger

PSC approved the merger between Altagas and Washington Gas in 2018. The order approving the merger required Altagas to deposit $30.2 million into the Maryland Gas Expansion Fund to be administered by MEA. MEA is required to use the funds in its discretion for the purpose of promoting the expansion of natural gas infrastructure to service businesses, residents, industry, and utility generation facilities. The funds are administratively held in the Strategic Energy Investment Fund (SEIF) in MEA.

PSC included several requirements for the uses of the fund to ensure that the ratepayers being impacted by the merger receive a majority of the benefits. The requirements include that a majority of the funds be spent in Washington Gas's service territory, efforts be made to engage with effected counties and municipalities on the disbursement of the projects and funds, and that at least $4.6 million of the funds be deployed in Calvert, Charles, Frederick, and St. Mary's counties. The fund represents approximately 35% the total benefits anticipated to go to ratepayers as part of the merger.

The fiscal 2021 opening balance of the fund is estimated to be $26.3 million; the Governor's proposed fiscal 2021 budget includes $6.5 million from the fund for authorized uses by MEA.

State Fiscal Effect:

Altagas and Washington Gas Merger

The fiscal 2021 opening balance of the Maryland Gas Expansion Fund is estimated to be $26.3 million; the Governor's proposed fiscal 2021 budget includes $6.5 million from the fund for authorized uses by MEA. Assuming that the fiscal 2021 amount would have otherwise been spent, special fund expenditures for SEIF increase by $19.8 million in fiscal 2021, reflecting the transfer from SEIF to DHCD. Special fund revenues for DHCD increase by $26.3 million, as all remaining gas expansion funds are transferred. Special fund expenditures for MEA decrease in total by $19.8 million from fiscal 2022 through 2024, based on MEA's estimate of future expenditures.

DHCD Energy Efficiency Programs

This analysis assumes that DHCD expands its existing energy efficiency programs in order to meet the bill's enhanced energy savings requirements, although the services offered by DHCD may need to be adjusted so as to produce greater energy savings at lower average costs (PSC advises that DHCD's programs are currently the most expensive component of EmPOWER on a per-kilowatt-hour basis). Further, as EmPOWER must continue beyond the 2021-2023 planning cycle under current law, the bill's costs are assumed to be ongoing in nature.

DHCD's estimate of the cost associated with expanding its programs to meet the bill's enhanced energy savings requirements is approximately $30 million annually, comprised mostly of contractual services ($22 million) for energy efficiency upgrades and related costs, plus about $4 million for local weatherization agencies and about $4 million in direct staff and related costs. The Department of Legislative Services cannot independently verify these costs at this time; ultimately, costs will depend on how DHCD chooses to implement the bill going forward, and the department could choose to do so in a more cost-efficient manner. Regardless, costs are likely substantial.

DHCD's costs are assumed to be paid for by a combination of newly available Alta Gas/Washington Gas merger funds ($26.3 million in total) and EmPOWER surcharge revenues. As discussed above, DHCD's costs are collected by electric companies through the EmPOWER Maryland surcharge – any approved costs in excess of available merger funding are assumed to be recovered through the surcharge. Accordingly, special fund revenues increase significantly – potentially by $20 million or more annually – from additional EmPOWER surcharge revenue to the extent necessary to cover additional costs.

Local Fiscal Effect: Local weatherization agencies may benefit from funds received from DHCD under the bill; conversely, some local governments do not receive funding or assistance from the Maryland Gas Expansion Fund. The effect on a particular local government is unknown, but could be meaningful.

Small Business Effect: Small businesses engaged in weatherization projects for DHCD benefit from a significant increase in program expenditures; conversely, small businesses engaged in natural gas expansion projects no longer receive funding from the Maryland Gas Expansion Fund. Other small businesses are also affected by the outcome of the bill: increased weatherization and less availability of natural gas infrastructure.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 740 (Senator Feldman) - Finance.

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

Fiscal Note History: First Reader - February 26, 2020
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