SB 689

Department of Legislative Services

Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 689 (Senator Lewis Young)

Education, Energy, and the Environment

Public Utilities - Energy Efficiency and Greenhouse Gas Emissions Reductions - Alterations and Requirements

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This bill alters the goals and requirements of the EmPOWER Maryland Energy Efficiency Program to be based on annual incremental *greenhouse gas* (GHG) *emissions* reductions instead of incremental *energy* reductions, beginning in 2024. The Public Service Commission (PSC) must require each electric company that is not a municipal electric utility or electric cooperative and each gas company to achieve the goals. The bill also requires the Department of Housing and Community Development (DHCD) to take specified actions in implementing the EmPOWER Maryland program, including promoting fuel switching from gas to electricity, establishing a program for State-issued rebates for residential electrification upgrades, and contracting for navigators to facilitate whole-home retrofits. The bill makes related generally conforming changes, such as to a reporting requirement.

Fiscal Summary

State Effect: PSC can implement the bill with existing budgeted resources. Special fund revenues and expenditures for DHCD increase or decrease to the extent necessary to align with DHCD costs under the bill. The amount and timing will depend on the change in costs for DHCD to comply with the EmPOWER requirements under the bill and the amount and timing of approved cost collection by PSC. There are significant known and unknown costs for DHCD, as discussed below. The effect on utility rates is discussed separately below.

Local Effect: Local governments are affected to the extent they receive different funding levels under the bill through DHCD's EmPOWER Maryland programs. The effect on utility rates is discussed separately below.

Small Business Effect: Meaningful.

Analysis

Bill Summary: Generally, beginning January 1, 2024, by regulation or order, PSC must require each electric company and gas company to reduce GHG emissions from each ratepayer class resulting from the direct consumption of electricity and natural gas by at least 2.0% below the 2016 level each year, with a cumulative impact of at least 14.0% by 2031, to support the State's overall GHG emissions reduction goals. Each gas company must achieve the GHG emissions reduction targets through building shell improvements and fuel switching only. A gas company may not use the replacement of gas appliances to achieve reduction targets. DHCD and electric companies must promote fuel switching from gas to electricity. Electric companies must promote the availability of related federal rebates.

Also, beginning no later than January 1, 2024:

- EmPOWER Maryland program incentives for gas, propane, oil, and other GHG-emitting appliances must be eliminated.
- All EmPOWER Maryland program home energy audits and home energy checkups must include an evaluation of the readiness of a home for electrification, as specified.
- DHCD must contract with navigators to facilitate whole-home retrofits, including weatherization, electrification, lead removal, mold remediation, asbestos remediation, and building shell improvements. The navigators provide a single point of contact for low-income residential customers, contractors, and multifamily property owners who rent to low-income residential customers and offer related language services.

DHCD must establish a program for State-issued rebates of up to $2,000 per residence for breaker panel and wiring repairs, replacements, and upgrades to support home electrification, but must deduct the value of any available federal rebates from the amount offered. DHCD must adopt implementing regulations.

Programs operated by DHCD for low-income residential customers are not required to meet evaluation, measurement, and verification requirements for general EmPOWER Maryland programs.

Current Law:

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. That legislation also required PSC to conduct a related study by July 1, 2022. Chapter 38 of 2022 (the Climate Solutions Now Act) further increased the goal to 2.25% per year in 2025 and 2026 and to 2.5% annually thereafter. The Act also specified that the core objective of the reductions must include development and implementation of a portfolio of mutually reinforcing goals, including GHG emissions reduction, energy savings, net customer benefits, and reaching underserved customers. The Act included related administrative requirements in uncodified language.

DHCD participates in EmPOWER Maryland 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.

Maryland Greenhouse Gas Emissions Reduction Targets and the Climate Solutions Now Act

The Climate Solutions Now Act made broad changes to the State's approach to reducing statewide GHG emissions and addressing climate change. Among other things, the Act accelerated previous statewide GHG emissions reductions targets originally established under the Greenhouse Gas Emissions Reduction Act by requiring the State to develop plans, adopt regulations, and implement programs to (1) reduce GHG emissions by 60% from 2006 levels by 2031 and (2) achieve net-zero statewide GHG emissions by 2045. The Act also established new and altered existing energy conservation requirements for buildings and increased and extended the EmPOWER Maryland program, as described above.

State Fiscal Effect: PSC can implement the required changes to the EmPOWER Maryland program with existing budgeted resources. This analysis assumes that DHCD conforms and expands where necessary its existing EmPOWER Maryland programs in order to meet the bill's new requirements. Further, as EmPOWER Maryland must continue beyond the current 2024-2026 planning cycle under current law, ongoing DHCD savings/costs are assumed to be incremental.

DHCD's estimate of the *administrative* costs associated with the bill are $2.5 million in fiscal 2024, increasing to $4.6 million by fiscal 2028. For fiscal 2024, the estimated cost is comprised mostly of contractual services for navigators and related costs ($2.0 million), plus partial-year costs for five full-time, permanent staff. DHCD further estimates providing approximately $15.0 million in rebates under the bill on an annual basis, although that may be less if federal funds are available, bringing total estimable expenditures to $10.0 million in fiscal 2024 and about $19.5 million annually thereafter. Other costs/savings associated with transitioning the goal of the EmPOWER Maryland program to GHG abatement are unknown but could be significant, meaning the net effect on DHCD EmPOWER expenditures is likewise unknown.

Nevertheless, DHCD's costs to implement the EmPOWER Maryland program are assumed to be paid for by EmPOWER surcharge revenues. Accordingly, special fund revenues increase or decrease to the extent necessary to align with DHCD costs under the bill. The amount and timing will depend on the change in costs for DHCD to comply with the EmPOWER requirements under the bill and the amount and timing of approved cost collection by PSC.

Local Fiscal Effect: Local weatherization agencies receive funds through LIEEP to assist in program implementation, and local housing authorities receive funds through MEEHA. Therefore, local governments are affected to the extent they receive different funding levels under the bill through DHCD's EmPOWER Maryland programs.

Small Business Effect: Small businesses engaged in projects under the EmPOWER Maryland program are affected by potential changes in program funding levels. Small electrician businesses may benefit from additional demand for their services due to rebates provided under the bill and from an ongoing emphasis on electrification. The opposite is true for small businesses engaged in natural gas/propane installation work.

Additional Comments: The EmPOWER surcharge is assessed on utility customers to pay for the program. Accordingly, all utility customers – including the State, local governments, and small businesses – will ultimately pay for any additional expenditures incurred under the bill and funded through EmPOWER Maryland when those costs are recovered by electric and gas companies through an increase in rates. However, PSC advises that it is unclear if the bill will cause costs greater than those required to comply with the current requirement to meet a 2.0% to 2.5% energy efficiency goal.

A July 2022 PSC report discusses the transition of EmPOWER Maryland from energy savings goals to GHG abatement goals and PSC's recommendation that the

General Assembly adopt GHG abatement goals – although no specific amount is specified in the report. The report incorporates intent language in the Climate Solutions Now Act.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 904 (Delegate Qi, *et al.*) - Economic Matters.

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

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km/lgc

Analysis by: Stephen M. Ross

Direct Inquiries to:
(410) 946-5510
(301) 970-5510