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BILL NO.:	**House Bill 967** **Ratepayer Reduction for Renewable Energy Act**
COMMITTEE:	**Economic Matters**
HEARING DATE:	**March 5, 2018**
SPONSORS:	**Delegates Clippinger, et al.**
POSITION:	**Unfavorable Report**

The Office of People's Counsel (OPC) requests an unfavorable report on House Bill 967.

First, OPC believes that there should be no changes to the RPS law to create long-term contract requirements for SOS customers until the legislature-required study of RPS is completed. In 2017, the General Assembly directed a comprehensive study of the RPS, with a preliminary study due by December 1, 2018, and a final report due by December 1, 2019.[1] OPC believes that it is in the best interest of residential customers, 80% of whom are SOS customers, to maintain the status of RPS and SOS procurement until the reports are issued, and there has been an opportunity to review them.

Second, the current law on Standard Offer Service (SOS) already provides the Public Service Commission with sufficient flexibility to modify the SOS procurement requirements so that SOS rates are the lowest cost while reducing price volatility.[2] This approach does not put

[1] Acts 2017 Ch. 393 (House Bill 1414), Renewable Energy Portfolio Study.
[2] PUA § 7-510 (c) (4).

residential SOS customers at risk of price shocks: the procurement process builds in price stability. However, if the current process is not delivering the proper balance between price stability and lowest price, the Commission has the authority to modify the process. This could include evaluation of the use of renewable long-term contracts for price reduction or stability purposes.

Third, SOS rates for residential customers have been declining steadily since 2009, in large part due to lower gas prices.[3] There is every expectation that natural gas prices will remain low over the next few years. Even with the most optimistic scenarios about renewable energy price reductions, there also is no indication that these customers would miss some major price reductions. This would be particularly so, if this proposal was reconsidered after release of the RPS study.

Finally, sponsors have introduced bills to increase significantly the current RPS standard (House Bills 878 and 1453). If adopted, those changes also could have unexpected impacts if House Bill 967 was passed.

Bill Requirements: House Bill 967 requires electric companies, commonly known as distribution companies, to enter into long-term contracts for renewable energy credits and electricity generated from certain Tier 1 renewable sources to meet at least 25% of each year's mandatory renewable portfolio standard (RPS) for electricity provided to standard offer service (SOS) customers. As of today, the RPS standard is 25% by 2020. While the RPS standard applies to all electricity suppliers, including electric companies, in Maryland, this Bill imposes the long-term contract requirement only on electric companies serving SOS customers.

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[3] See Attachment A.

The Bill has the following requirements:

- Electric companies must enter into renewable energy long-term contracts to serve SOS customers beginning in 2020.[4]
- The contract terms must extend from 10 to 20 years.
- Electric companies must conduct a competitive bid process to secure RECs and electricity from a subset of Tier 1 renewable sources (solar, wind, geothermal, ocean and small hydroelectric facilities only).
- The electric companies must submit the contracts to the Public Service Commission for approval.
- The Commission must award the contract if "it is cost-effective as compared to long-term projection of renewable energy costs."
- Beginning 2020, once approved, the contracted-for electricity "shall be used to meet at least 25% of that year's [RPS]" for electricity provided to SOS customers.

SOS Procurement. The Electric Restructuring law provides a standard for the utility procurement of electricity for SOS customers. This standard requires the Commission to adopt a procurement process that balances the "best price" (i.e., least cost) with price stability (protection of customers "from excessive price increases").[5] The law requires the electric companies to use a competitive bidding process to procure supply, and permits bilateral contracts, if approved by the Commission. The Commission bidding process currently requires staggered two-year contracts, with bid solicitations twice a year. Contracts are subject to review and approval by the

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[4] Senate Bill 391 is substantially similar, but not identical, to House Bill 967. The Senate Bill requires the contracts to be effective in 2021.
[5] PUC § 7-510(c) (4) (ii).

Commission. Despite the difficulties with the expiration of utility rate freezes in 2004 (Pepco) and 2006 (BGE), the SOS rates have been slowly declining since the high prices in 2008/2009. The current prices remain in decline, primarily due to the impact of low gas prices in the wholesale electricity markets.

In the past, OPC has supported the *concept* of considering the use of contracts, including contracts for renewable energy, as part of a strategy to procure diverse electricity products needed to supply residential SOS customers. Under the right circumstances, long-term purchases may be cost-effective and useful as part of an overall procurement strategy to balance lower costs and price stability. In fact, current law already provides the Public Service Commission (PSC) with authority to order distribution utilities to enter into long term contracts as part of a portfolio of blended wholesale supply contracts if those contracts meet demand for SOS electricity *in a cost–effective manner.*[6] However, for the reasons stated, OPC does not believe that adoption of a mandatory renewable energy contract requirement for SOS is either appropriate, prior to the release of the 2019 study, or necessary at this time.

In comparison to last year's version of this proposal,[7] House Bill 967 has added certain provisions, and omitted others. OPC recognizes that the Bill addresses major concerns raised by OPC last year, by expressly providing for Commission oversight over the procurement process and ultimate approval of the contracts. The Bill also includes a cost-effectiveness standard for such approval.[8] However, while the determination of cost-effectiveness by the PSC is important,

[6] See Public Utilities Article, § 7-510 (c) (4) (ii) (2).
[7] House Bill 1452, a similar bill, received a hearing, but was withdrawn.
[8] OPC notes that the Bill provides for a cost-comparison between the contract costs and the "long-term projection of renewable energy costs." "Renewable energy" is not defined for purposes of this proposal; the phrase could refer to a broader group of renewable energy resources than is specified for the contracts.

OPC does note that the Commission would determine cost-effectiveness only in relation to renewable resources, and not in comparison to other, perhaps more cost-effective, resources. With a long- term purchased power contract, ratepayers face the possibility of locked-in rates that are higher than the market price of renewable energy during the term of the contract.[9] In addition, as the Fiscal Note states, cost-effectiveness is determined at the time of approval by the Commission; the actual future rates on a long-term contract could be higher or lower. (Note, p. 4).

Finally, this Bill does not include last year's provision for recovery of "lost revenues" through distribution rates. OPC appreciates these changes to last year's proposal. If the Committee decides to report favorably on the Bill, these changes are beneficial. However, in evaluating whether the mandatory procurement requirements are either necessary or beneficial to residential SOS customers at this time, OPC believes that the answer is no.

For these reasons, the Office of People's Counsel respectfully requests an UNFAVORABLE report.

[9] Of course, the market price for renewable energy in any year over the duration of the contract could be affected by a number of factors including demand for renewable energy, the availability of other sources of cheaper renewable energy, technological improvements, and changes in law (for example, the availability of tax credits for forms of renewable energy).

Attachment A

The SOS rates are for residential SOS customers only. OPC has compiled the rates based on the electricity company tariffs approved by the Public Service Commission

	May 2009	June 2009	July 2009	August 2009	September 2009	October 2009	November 2009	December 2009	January 2010	February 2010	March 2010	April 2010
BGE/ SOS	.1182 kWh	.1193 kWh	.1197 kWh	.1197 kWh	.1197 kWh	.1197 kWh	.1197 kWh	.1197 kWh	.1197 kWh	.1197 kWh	.1197 kWh	.1197 kWh
DPL/SOS	.1133 kWh	.1128 kWh	.1128 kWh	.1111 kWh	.1111 kWh	.1111 kWh	.1111 kWh	.1111 kWh	.1111 kWh	.1111 kWh	.1111 kWh	.1111 kWh
PEPCO/ SOS	.1251 kWh	.1251 kWh	.1251 kWh	.1251 kWh	.1251 kWh	.1251 kWh	.1251 kWh	.1251 kWh	.1251 kWh	.1251 kWh	.1251 kWh	.1251 kWh

	May 2010	June 2010	July 2010	August 2010	September 2010	October 2010	November 2010	December 2010	January 2011	February 2011	March 2011	April 2011
BGE/ SOS	.1062 kWh	.1075 kWh	.1075 kWh	.1075 kWh	.1075 kWh	.1008 kWh	.1003 kWh	.1003 kWh	.1003 kWh	.1003 kWh	.1023 kWh	.1023 kWh
DPL/SOS	.1111 kWh	.1012 kWh	.1012 kWh	.1012 kWh	.1012 kWh	.0940 kWh	.0952 kWh	.0952 kWh	.0952 kWh	.0952 kWh	.0952 kWh	.0996 kWh
PEPCO/ SOS	.1251 kWh	.1107 kWh	.1107 kWh	.1107 kWh	.1107 kWh	.1024 kWh	.1024 kWh	.1035 kWh	.1035 kWh	.1035 kWh	.1035 kWh	.1032 kWh

	May 2011	June 2011	July 2011	August 2011	September 2011	October 2011	November 2011	December 2011	January 2012	February 2012	March 2012	April 2012
BGE/ SOS	.0952 kWh	.08886 kWh	.08886 kWh	.08886 kWh	.08886 kWh	.08886 kWh	.09037 kWh	.09037 kWh	.09037 kWh	.09076 kWh	.09076 kWh	.09076 kWh
DPL/SOS	.0931 kWh	.0931 kWh	.0931 kWh	.0931 kWh	.0931 kWh	.0835 kWh	.0835 kWh	.0835 kWh	.0835 kWh	.0835 kWh	.0835 kWh	.0835 kWh
PEPCO/ SOS	.0964 kWh	.0964 kWh	.0964 kWh	.0964 kWh	.0964 kWh	.0862 kWh	.0862 kWh	.0862 kWh	.0862 kWh	.0862 kWh	.0862 kWh	.0862 kWh

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	May 2012	June 2012	July 2012	August 2012	September 2012	October 2012	November 2012	December 2012	January 2013	February 2013	March 2013	April 2013
BGE/ SOS	.08743 kWh	.09862 kWh	.09862 kWh	.09862 kWh	.09862 kWh	.08964 kWh	.08964 kWh	.08964 kWh	.08964 kWh	.08968 kWh	.08968 kWh	.08964 kWh
Delmarva/SOS	.0868 kWh	.0928 kWh	.0928 kWh	.0928 kWh	.0928 kWh	.0871 kWh	.0871 kWh	.0871 kWh	.0871 kWh	.0871 kWh	.0871 kWh	.0871 kWh
PEPCO/ SOS	.0850 kWh	.0898 kWh	.0898 kWh	.0898 kWh	.0898 kWh	.0867 kWh	.0867 kWh	.0867 kWh	.0867 kWh	.0867 kWh	.0867 kWh	.0867 kWh

	May 2013	June 2013	July 2013	August 2013	September 2013	October 2013	November 2013	December 2013	January 2014	February 2014	March 2014	April 2014
BGE/ SOS	.08964 kWh	.10445 kWh	.10445 kWh	.10445 kWh	.10445 kWh	.09623 kWh	.09623 kWh	.09623 kWh	.09623 kWh	.09623 kWh	.09623 kWh	.09623 kWh
DPL/SOS	.0871 kWh	.0955 kWh	.0955 kWh	.0955 kWh	.0955 kWh	.0894 kWh	.0894 kWh	.0906 kWh	.0906 kWh	.0906 kWh	.0906 kWh	.0906 kWh
PEPCO/ SOS	.0867 kWh	.0941 kWh	.0941 kWh	.0941 kWh	.0941 kWh	.0921 kWh	.0930 kWh	.0930 kWh	.0930 kWh	.0930 kWh	.0930 kWh	.0930 kWh

	May 2014	June 2014	July 2014	August 2014	September 2014	October 2014	November 2014	December 2014	January 2015	February 2015	March 2015	April 2015
BGE/ SOS	.09623 kWh	.08975 kWh	.08975 kWh	.08857 kWh	.08857 kWh	.8616 kWh	.08575 kWh	.08575 kWh	.08575 kWh	.08815 kWh	.08815 kWh	.08815 kWh
DPL/SOS	.0906 kWh	.0858 kWh	.0858 kWh	.0858 kWh	.0858 kWh	.0870 kWh	.0870 kWh	.0870 kWh	.0870 kWh	.0870 kWh	.0870 kWh	.0870 kWh
PEPCO/ SOS	.09623 kWh	.0864 kWh	.0864 kWh	.0864 kWh	.0864 kWh	.0847 kWh	.0847 kWh	.0847 kWh	.0847 kWh	.0847 kWh	.0847 kWh	.0847 kWh

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	May 2015	June 2015	July 2015	August 2015	September 2015	October 2015	November 2015	December 2015	January 2016	February 2016	March 2016	April 2016
BGE/ SOS	.8815 kWh	.09419 kWh	.09419 kWh	.09419 kWh	.09419 kWh	.09345 kWh	.09468 kWh	.09468 kWh	.09468 kWh	.09548 kWh	.09548 kWh	.09548 kWh
DPL/SOS	.0870 kWh	.0929 kWh	.0929 kWh	.0929 kWh	.0929 kWh	.0927 kWh	.0927 kWh	.0927 kWh	.0927 kWh	.0927 kWh	.0927 kWh	.0927 kWh
PEPCO/ SOS	.0847 kWh	.0914 kWh	.0914 kWh	.0914 kWh	.0914 kWh	.0924 kWh	.0924 kWh	.0924 kWh	.0924 kWh	.0924 kWh	.0924 kWh	.0924 kWh

	May 2016	June 2016	July 2016	August 2016	September 2016	October 2016	November 2016	December 2016	January 2017	February 2017	March 2017	April 2017
BGE/ SOS	.08990 kWh	.09537 kWh	.09537 kWh	.09537 kWh	.09537 kWh	.0899 kWh	.0899 kWh	.09342 kWh	.09362 kWh	.09288 kWh	.09288 kWh	.09288 kWh
DPL/SOS	.0927 kWh	.0901 kWh	.0901 kWh	.0901 kWh	.0901 kWh	.0838 kWh	.0838 kWh	.0838 kWh	.0836 kWh	.0836 kWh	.0836 kWh	.0836 kWh
PEPCO/ SOS	.0924 kWh	.0878 kWh	.0878 kWh	.0878 kWh	.0878 kWh	.0870 kWh	.0870 kWh	.0870 kWh	.0865 kWh	.0865 kWh	.0865 kWh	.0865 kWh

	May 2017	June 2017	July 2017	August 2017	September 2017	October 2017	November 2017	December 2017	January 2018	February 2018	March 2018	April 2018
BGE/ SOS	.09288 kWh	.08607 kWh	.08607 kWh	.08607 kWh	.08607 kWh	.08218 kWh	.08218 kWh	.08218 kWh	.08218 kWh			
DPL/SOS	.0836 kWh	.0772 kWh	.0772 kWh	.0772 kWh	.0772 kWh	.0752 kWh	.0752 kWh	.0752 kWh	.0774 kWh			
PEPCO/ SOS	.0865 kWh	.0798 kWh	.0798 kWh	.0798 kWh	.0798 kWh	.0770 kWh	.0770 kWh	.0770 kWh	.0788 kWh			

Data compiled by Harold Muncy, OPC Director of Consumer Investigations