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BILL NO.:	**House Bill 514** **Energy Efficiency Programs – Calculation of Program Savings and Consideration of Cost-Effectiveness**
COMMITTEE:	**Economic Matters**
HEARING DATE:	**February 9,2017**
SPONSORS:	**Delegate Jameson**
POSITION:	**Favorable Report with Amendments**

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House Bill 514 amends Maryland's EmPOWER Maryland Energy Efficiency Act, enacted in 2008. The Act established goals for electric companies to reduce electricity usage and peak demand by 2015. The goals were basically met on a statewide basis by 2015, but were not further modified by amendment of the Act. The Bill has two major provisions: (1) The Bill establishes a targeted annual incremental gross energy savings of at least 2.0% per year, to be achieved on a ramped up basis of 0.2% per year; and (2) The Bill sets out specific requirements for the evaluation of the cost-effectiveness of the programs, using both the total resource cost (TRC) test and the societal cost (SC) tests in the evaluations. The Office of People's Counsel (OPC or People's Counsel) supports the establishment of the 2.0% goal and the overall intent of the Bill in codifying the vetting of cost-effective programs for all customer classes. However, our agency does have concerns about some of the specific details of the cost-effectiveness test requirements, and offers the attached amendments for consideration by the Committee.

The Fiscal Note suggests that the Bill codifies certain directives contained in a June 2015 Commission Order, Order No. 87082, establishing new post-2015 goals and approving certain requirements for cost-effectiveness tests. OPC believes that description is correct with regard to the 2% savings rate, which OPC had proposed and supported in comments to the Commission in 2015. OPC supports the inclusion of that savings rate in this Bill, without any amendments to the bill language.

OPC has a somewhat different view of the language and directives of Order 87082 regarding the cost-effectiveness tests. The Commission considered the Report and comments from a Commission Work Group that had worked for the better part of a year on the cost-effectiveness test formulations. OPC, with the assistance of expert consultants, participated extensively in those discussions with PSC Staff, the Maryland Energy Administration and other groups. Ultimately OPC generally supported the Order's directives on the cost-effectiveness tests.[1]

However, OPC believes that certain of the cost-effectiveness requirements set forth in the Bill are more expansive than those set forth in the PSC Order, and include items that OPC had taken issue with in the Work Group. In particular, the Bill's definitions of non-energy benefits (NEBs) for participants and society expressly include categories that were not in the approved methodologies, but were simply referenced in

[1] OPC did take issue with a complicated technical issue regarding the calculation of DRIPE, one of the inputs in calculating the cost-effectiveness of programs, and presented our concerns to the Commission. The PSC did not agree with our position, and the resolution of that issue is not relevant to this broader discussion.

footnotes 68 and 69 of the Order as "examples" of non-energy benefits described in a filing with the California Public Utilities Commission. Ultimately, the Commission only included a discrete number of these non-energy benefits in its cost-effectiveness screening directives. These included quantified NEBs for categories of air emissions, comfort, operating and maintenance costs for commercial and industrial customers, and customer arrearages (for low-income programs).[2]

While OPC does not take issue with the Bill's requirements that the Commission use both the TRC and SC tests, as reflected in the Order, we do believe it is problematic in general to mandate the inclusion of defined non-energy benefits, and constrain what can and should be an ongoing iterative review process by stakeholders and the Commission, to address changing conditions. More specifically, OPC believes that the NEB examples of "increased value," as included in the definition of Participant NEBs, and "job creation,[3] tax receipts growth, labor productivity, housing value, and neighborhood stability," as included in the definition of Societal NEBs, are nebulous and difficult to evaluate and quantify (never mind connect directly to energy efficiency programs), and should not be included in any legislative definitions of Participant and Societal benefits. Instead, to the extent that the inclusion of statutory mandates on cost-effectiveness screening tests is considered, OPC recommends that it be limited to references to the TRC and SC tests, and require the Commission to conduct a thorough

[2] Order at p. 15.

[3] The Commission already is directed to consider "impact on jobs" generally when determining cost-effectiveness, in the same manner that it must consider "impacts on rates of each ratepayer class." PUA § 7-211(I)(ii) and (iii). The Bill does not propose to amend these existing requirements.

review of the methodology and assumptions, including non-energy benefits, for each 3-year planning cycle.

Since the 1990s, OPC has consistently supported the development and implementation of cost-effective energy efficiency programs for their multiple benefits for residential customers, and supported the 2008 Act. Since then, OPC has reviewed utility plans, cost-effectiveness screening, and residential program design and implementation, with the assistance of energy efficiency consultants, and submitted extensive comments and recommendations on the utilities' (and DHCD's) 3-year plans, utility programs, cost-effectiveness screening and evaluations of residential programs. Based on these extensive reviews, OPC believes that these programs have provided significant benefits to residential customers who participate in the programs and customers at large that offset the costs of the programs. The continuation of the EmPOWER program, with efforts to reach a targeted 2% savings rate, would allow those benefits to continue.

With these comments, OPC recommends that the Committee issues a FAVORABLE report on House Bill 514, with amendments set forth in the Attachment.

ATTACHMENT
OPC TESTIMONY ON HOUSE BILL 514
ECONOMIC MATTERS COMMITTEE
PROPOSED AMENDMENTS

1. **Amendment to 7-211(I) (page 5)**

Purpose: To eliminate definitions of participant, societal and utility non-energy benefits for reasons set forth in OPC Testimony

STRIKE Page 5, line 20 at **(1)** through line 32 at **(2).**

2. **Amendment to 7-211(I)(1)(i) (page 6)**

Purpose: To make references to subportfolio and portfolio consistent for the customer classes and with PSC Order 87082.

On page 6, line 2, after "commercial and industrial sector, substitute "subportfolio" for "portfolio".