STATE OF MARYLAND
OFFICE OF PEOPLE'S COUNSEL
Paula M. Carmody, People's Counsel
6 St. Paul Street, Suite 2102
Baltimore, Maryland 21202
410-767-8150; 800-207-4055
www.opc.maryland.gov

BILL NO.:	**House Bill 879** **Ratepayer Reduction for Renewable Energy Act**
COMMITTEE:	**House Economic Matters**
HEARING DATE:	**March 7, 2019**
SPONSORS:	**Delegates Clippinger, at al.**
POSITION:	**Informational**

House Bill 879 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 50% of each year's mandatory renewable portfolio standard (RPS) for electricity provided to standard offer service (SOS) customers. As of today, the RPS standard will require 25% renewables by 2020.[1] 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. Eighty percent of residential electric customers and sixty-eight percent of small commercial/industrial customers are SOS customers.

The Bill has the following requirements:

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[1] OPC notes that House Bill 1158, "Clean Energy Jobs," would increase that requirement to 50% by 2030, and is scheduled for hearing before the Economic Matters Committee on March 8, 2019.

- Electric companies must enter into renewable energy long-term contracts with renewable energy facilities to serve SOS customers beginning in 2022.
- The contract terms must extend from 10 to 20 years.
- Electric companies must conduct a competitive bid process to secure both renewable energy credits (RECs) and electricity supply 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 2022, once approved, the contracted-for electricity "shall be used to meet at least 50% of that year's [RPS]" for electricity provided to SOS customers.

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").[2] 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 Commission. Despite the difficulties with the expiration of utility rate freezes in 2004 (Pepco) and 2006 (BGE), the SOS

[2] PUA § 7-510(c) (4) (ii).

rates have been declining since the high prices in 2008 and 2009. The current prices remain in decline, primarily due to the impact of low gas prices in the wholesale electricity markets.

Maryland 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.*[3] 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. However, as the Fiscal Note states, since the cost-effectiveness of the PPAs is determined at the time of Commission approval, "actual future rates could be higher or lower than they otherwise would have been" due to this Bill's requirements.[4]

House Bill 879 could have an unintended consequence because it contains two provisions that are in conflict. On one hand, the bill provides that all long-term contracts for renewable power must be reviewed and approved by the Commission if it finds them to be cost effective (page 3, §7-510(c)(3)). On the other hand, the bill mandates that the RECs and electricity procured under the bill be used to meet 50% of the RPS renewable power requirements (page 3, §7-510(d)). It is not clear how this mandatory requirement could be met if there are insufficient contracts that the Commission finds to be cost-effective. The Office of People's Counsel (OPC) believes that it is critical that the Commission review the contracts and make a finding that they will be cost effective for customers. Therefore, to resolve the conflict between the two provisions, the provision of the bill making it mandatory that at least 50% of the electricity and RECs for SOS be procured through long-term contracts should be removed.

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[3] See Public Utilities Article, § 7-510 (c) (4) (ii) (2).
[4] Fiscal Note, HB 879, page 3.