

**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 1452
**Renewable Energy Portfolio Standard
Requirements-Standard Offer Service**

COMMITTEE: Economic Matters

HEARING DATE: March 2, 2017

SPONSORS: Delegates Clippinger and B. Barnes

POSITION: Unfavorable Report

House Bill 1452 requires electric companies, commonly known as distribution companies, to enter into contracts for renewable energy credits and electricity generated from Tier 1 renewable sources to meet at least 25% of each year's renewable portfolio standard (RPS) for electricity provided to standard offer service (SOS) customers. The Bill requires electric companies to solicit bids for renewable energy credits using a competitive procurement process. The Bill requires the term of the contracts entered into to be at least 10 years and not more than 20 years in duration. Finally, the Bill provides that electric companies may recover costs associated with compliance, including "lost revenue," in distribution rates in a base rate case.

In the past, the Office of People's Counsel has supported the *concept* of using long-term contracts as a strategy to procure electricity products needed to supply SOS customers. Under the right circumstances, long-term purchases can be cost-effective and useful as part of an overall procurement strategy. 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*.¹ However, the Bill, as drafted, removes the PSC's ability to determine whether the competitive procurement process for at least one quarter of each company's RPS requirements for SOS customers is cost-effective. This determination of cost-effectiveness by the PSC is important because under a long term purchased power contract, ratepayers face the possibility that they could be locked into rates that are higher than the market price of renewable energy during the term of the contract.²

Finally, the Bill allows electric companies to recover the costs associated with procuring the energy and "lost revenue" to be recovered in distribution rates in a base rate case. As drafted, the Bill removes the PSC's ability to examine the costs of entering into a long-term contract for renewable energy credits through evidence at a hearing and to determine whether they are just and reasonable expenses under the law. As a matter of due process, affected parties such as the Office of People's Counsel should have the opportunity to challenge all or part of the costs that the electric companies seek to recover through distribution rates.

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

¹ See Public Utilities Article, § 7-510 (c) (4) (ii) (2).

² 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).