

Government of the District of Columbia  
Office of the Chief Financial Officer



Jeffrey S. DeWitt  
Chief Financial Officer

**MEMORANDUM**

**TO:** The Honorable Phil Mendelson  
Chairman, Council of the District of Columbia

**FROM:** Jeffrey S. DeWitt  
Chief Financial Officer 

**DATE:** November 20, 2018

**SUBJECT:** Fiscal Impact Statement – CleanEnergy DC Omnibus Amendment Act of 2018

**REFERENCE:** Bill 22-904, Draft Committee Print as shared with the Office of Revenue Analysis on November 19, 2018

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**Conclusion**

Funds are not sufficient in the fiscal year 2019 through fiscal year 2022 budget and financial plan to implement the bill. The bill's implementation will cost \$21 million in fiscal year 2019 and approximately \$91 million over the four-year financial plan period. The bill's implementation will also generate approximately \$59 million in special purpose revenue over the four-year financial plan period. The bill is subject to its inclusion in an approved budget and financial plan.

**Background**

**TITLE I – RENEWABLE ENERGY**

The District has a Renewable Energy Portfolio Standard (RPS) that requires electricity and gas suppliers to generate a prescribed share of their supply from renewable sources. The current standard requires these utility providers to generate 50 percent of their supply from renewable sources by 2032, a carve-out of which must be from solar energy equal to 5 percent of the energy supply. Energy suppliers meet these requirements through the purchase of Renewable Energy Credits (REC) from renewable energy producers. The bill accelerates the District's RPS by setting a goal of 100 percent renewables by 2032 and a carve-out of solar energy of 10 percent by 2041. The chart below details the changes for Tier 1 and solar energy:

Year	Tier One Sources		Solar Sources	
	Current	Bill 22-904	Current	Bill 22-904
2019	17.5%	17.5%	1.35%	1.85%
2020	20%	20%	1.58%	2.175%

Year	Tier One Sources		Solar Sources	
	Current	Bill 22-904	Current	Bill 22-904
2021	20%	26.25%	1.85	2.5%
2022	20%	32.5%	2.175%	2.6%
2023	20%	38.75%	2.5%	2.85%
2024	23%	45%	2.6%	3.15%
2025	26%	52%	2.85%	3.45%
2026	29%	59%	3.15%	3.75%
2027	32%	66%	3.45%	4.1%
2028	35%	73%	3.75%	4.5%
2029	38%	80%	4.1%	4.75%
2030	42%	87%	4.5%	5.0%
2031	46%	94%	4.75%	5.25%
2032	50%	100%	5.0%	5.5%
2033	50%	100%	5.0%	6.0%
2034	50%	100%	5.0%	6.5%
2035	50%	100%	5.0%	7.0%
2036	50%	100%	5.0%	7.5%
2037	50%	100%	5.0%	8.0%
2038	50%	100%	5.0%	8.5%
2039	50%	100%	5.0%	9.0%
2040	50%	100%	5.0%	9.5%
2041 <sup>1</sup>	50%	100%	5.0%	10.0%

The bill adjusts the location where Tier 1 and Tier 2 sources can be generated to eliminate sources in states adjacent to the PJM Interconnection region,<sup>2</sup> except for those certified by the Public Services Commission (PSC)<sup>3</sup> and only until January 1, 2029. Any contracts entered into before the bill’s effective date do not need to meet the new RPS for three years following January 1, 2019. The bill also extends the life of a REC from three years to five years.

If an electricity supplier is unable to meet the RPS, it must pay a compliance payment into the District’s Renewable Energy Development Fund (REDF). The compliance payment rates are paid every spring, are set by law, and can be recovered from ratepayers. The bill shifts the transmission of those compliance payments from the spring to November 1 of each year to account for shortfalls in meeting the RPS in the prior calendar year.

The bill expands the annual reporting requirements regarding what energy suppliers must share with the PSC and what the PSC must include in its reporting to the Council. In the annual reports from 2019 through 2022, energy suppliers must report the details of any energy contract that is exempt from RPS standards. The PSC must include in its annual report to the Council aggregate information about contracts that were exempt from RPS in the prior year, estimates about how much supply will be exempt in the current and subsequent years, compliance fees paid in the prior year, and an estimate of compliance fees to be paid in the current year.

<sup>1</sup> This standard applies to 2041 and each year thereafter.

<sup>2</sup> The region includes all or parts of Delaware, the District of Columbia, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, and Virginia.

<sup>3</sup> As of the bill’s effective date.

The bill also requires the Department of Energy and Environment (DOEE) to spend up \$250,000 of REDF resources on a study of the costs and benefits of the Building Energy Performance Standard Program established in Title III of this bill. DOEE should consult with the Building Energy Performance Standards Task Force<sup>4</sup> in the development of the study criteria.

The bill expands the PSC mission and advocacy efforts to include an awareness of global climate change and the District's public climate commitments.

## TITLE II – ENERGY EFFICIENCY

The District requires natural gas and electricity utilities serving District customers to collect a fee that is deposited into the Sustainable Energy Trust Fund (SETF) and dedicated to the District's energy efficiency efforts. These efforts are executed through a contract with the Sustainable Energy Utility (SEU) that issues grants, loans, and implements other programs to increase sustainable energy and energy efficiency efforts in the District.

The bill increases revenues for the SETF by raising the per unit rates for both natural gas and electricity utilities and imposing a new fee on home heating or fuel oil. The bill maintains the per therm natural gas assessment at \$0.0150 in fiscal year 2019 and then increases it to \$0.03762 for fiscal years 2020 through 2031 and to \$0.0263 in fiscal year 2032 and each year thereafter. The bill maintains the per kilowatt hour electricity assessment at \$0.001612 in fiscal year 2019. It then increases the assessment to \$0.0029016 in fiscal year 2020 before gradually decreasing it back to \$0.001612 by fiscal year 2032. The chart below outlines the new per kilowatt hour electricity assessment:

Fiscal Year	Per Kilowatt Hour Electricity Assessment
2020	\$0.0029016
2021	\$0.00279279
2022	\$0.0027001
2023	\$0.00259935
2024	\$0.0024986
2025	\$0.00239785
2026	\$0.0022971
2027	\$0.00219635
2028	\$0.0020956
2029	\$0.00199485
2030	\$0.0018942
2031	\$0.00179335
2032 and each year thereafter	\$0.001612

The bill imposes a new \$0.084 per gallon assessment on the delivery of heating or fuel oil to end users in the District.

The bill also amends or dictates spending of some of the SETF revenues. The bill dedicates 30 percent of the incremental revenues received from the assessment increases to benefit low-income

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<sup>4</sup> This task force is also established in Title III of the bill.

households with bill assistance, energy efficiency measures, and weatherization; to provide job training for DC residents in energy efficiency job fields; and to fund the Sustainable Energy Infrastructure Capacity Building and Pipeline Program as established in Title IV of the bill. The bill directs \$70 million from the SETF to the Green Finance Authority<sup>5</sup> over six years from fiscal year 2020 through fiscal year 2025.<sup>6</sup> The bill also allows DOEE to use SETF resources on the Building Energy Performance Standard Program established in Title III of the bill, ensures that DOEE can spend SETF resources on implementing the comprehensive energy plan that it is directed to develop with SETF resources, and allocates at least \$3 million annually beginning in fiscal year 2022 toward energy efficiency upgrades in affordable housing or rent-controlled buildings<sup>7</sup> that are subject to the Building Energy Performance Standard Program. The District enters into a contract with the SEU for at least \$20 million annually and current law restricts the SEU to spending at least 75 percent of the SETF revenues received each from natural gas and electricity utilities on programs that support those respective energy types. The bill eliminates these restrictions.

The bill also authorizes the PSC to approve any natural gas or electric company programs designed to support energy efficiency and demand reduction efforts for their respective low- and moderate-income customers and receive the appropriate cost recovery and rate stabilization approvals. Any programs must be deemed by the PSC to be in the public interest and consistent with the District's policy goals.

### TITLE III – BUILDING ENERGY PERFORMANCE STANDARDS AND BENCHMARKING

The bill establishes a Building Energy Performance Standard Program to set benchmarks that buildings in the District with over 10,000 square feet of gross floor area must meet by January 1, 2026. DOEE should conduct assessments of all relevant buildings every five years beginning on January 1, 2021. DOEE should also develop and review property types and the associated performance standards every five years beginning by March 1, 2021. In developing the standards, DOEE should consider the District's short- and long-term climate commitments.<sup>8</sup> The standard should be no lower than the median Energy Star scores for similar property types. By January 1, 2023, DOEE should publish a report on whether the standards should be revised to standards based on reducing greenhouse gas emissions.

These standards that DOEE must set will apply to all private buildings with 50,000 square feet or greater and all District-owned buildings 10,000 square feet or greater by January 1, 2021. Private buildings 25,000 square feet or greater must comply by January 1, 2023. Private buildings greater than 10,000 square feet must comply by January 1, 2026. DOEE can set campus-wide standards for universities, hospitals, and other areas with multiple related buildings.

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<sup>5</sup> Green Finance Authority Establishment Act of 2018, effective August 22, 2018 (D.C. Law 22-155; D.C. Official Code 8-173.21 et seq.).

<sup>6</sup> DOEE should transfer \$15 million in both fiscal year 2020 and 2021 and \$10 million in each fiscal year from 2022 through 2025. These transfers must be included in an approved budget and financial plan.

<sup>7</sup> These are buildings where a majority of the residents earn 80 percent or less of the Area Median Income or are located in a census tract where residents earn 80 percent or less of the Area Median Income and the building owner affirms that a majority of its residents meet that same requirement.

<sup>8</sup> These commitments include reducing greenhouse gas emissions by 50 percent by 2032 and achieving carbon neutrality by 2050.

DOEE should establish multiple ways for buildings to meet the standards, including but not limited to, allowing buildings to demonstrate a 20 percent energy use intensity decrease over a five-year period and allowing for the implementation of energy efficiency measures that provide a comparable energy use intensity decrease. Buildings that are below their Energy Star benchmarks will have five years to come into compliance. DOEE can exempt any buildings from the energy requirements for up to three years if they can demonstrate financial or other hardships. The exemption period can be longer for affordable housing buildings demonstrating hardship with compliance. DOEE should coordinate with the SEU and the Green Finance Authority to set up incentives and financial assistance programs for affordable housing providers to meet the building standards. DOEE can impose an alternative compliance fee for buildings that fail to comply and deposit those fees into the SETF.

The bill also reduces the size of buildings that need to comply with the District's energy benchmarking requirements. Buildings 25,000 square feet or greater must begin benchmarking by January 1, 2021. Buildings 10,000 square feet or greater must begin benchmarking by January 1, 2024. The bill requires all buildings participating in the energy benchmarking program to conduct a third-party audit of its benchmarking data every three years.

The bill establishes a thirteen-member Building Energy Performance Standards Task Force to advise DOEE on the Building Energy Performance Program's implementation and advise on DOEE regulations and policies related to energy usage in the District.

#### TITLE IV – SUSTAINABLE ENERGY INFRASTRUCTURE CAPACITY BUILDING AND PIPELINE PROGRAM

The bill establishes the Sustainable Energy Infrastructure Capacity Building and Pipeline Program (Pipeline Program) to increase the capacity and participation of Certified Business Enterprises<sup>9</sup> (CBE) and other eligible business in energy efficiency fields. The Pipeline Programs efforts should be around increasing CBE participation in efforts to meet the District's RPS. DOEE should work through its contracting processes to ensure CBE participation in energy efficiency contracts are considered during the contract awards. DOEE should also work with the Department of Small and Local Business Development (DSLBD) for at least five years to develop a training and certification program for CBEs looking to participate in energy efficiency and renewable energy activities in the District. DOEE should fund the Pipeline Program out of the 30 percent set-aside of the increase in SETF revenues.

#### TITLE V – TRANSPORTATION EMISSION REDUCTION

The bill requires the Department of Motor Vehicles (DMV), in consultation with DOEE, to revise the motor vehicle excise tax<sup>10</sup> by January 1, 2020. DMV should reduce the excise tax for vehicles whose fuel efficiency is above a benchmark standard and increase the excise tax for vehicles whose fuel efficiency is below a benchmark standard. DMV should set the new rates at levels that are revenue

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<sup>9</sup> Small and Certified Enterprise Development and Assistance Act of 2005, effective October 20, 2005 (D.C. Law 16-33; D.C. Official Code § 2-218.02(1D)).

<sup>10</sup> The District of Columbia Traffic Act, 1925, approved March 3, 1925 (43 Stat. 1121; D.C. Official Code § 50-2201.03(j)).

neutral. DMV should also exempt any individual who claims the Earned Income Tax Credit from the increased excise tax rate.<sup>11</sup> The bill exempts electric vehicles from the excise tax.

The bill authorizes the Mayor to commit to any regional initiatives, agreements, or compacts around limiting greenhouse gasses from the transportation sector. The bill authorizes the Mayor to implement a greenhouse gas emissions fee on motor fuel sales or distribution only if and up to any amounts similarly set in Virginia and Maryland.

The bill also establishes a program to require all public buses, taxis, privately operated ride share fleets, commercial motor carriers, and limousine services to operate low- and zero-emissions vehicles by 2045. Entities and companies should transition to these vehicles so that 50 percent of their fleets are low- and zero-emissions vehicles by 2030, 75 percent by 2035, 90 percent by 2040, and 100 percent by 2045. The Mayor can issue non-compliance fees and dedicate those fees to building and maintaining electric vehicle infrastructure.

The PSC should also consider any applications by an electric company to promote transportation electrification.

### **Financial Plan Impact**

Funds are not sufficient in the fiscal year 2019 through fiscal year 2022 budget and financial plan to implement the bill. The bill's implementation will cost \$21 million in fiscal year 2019 and approximately \$91 million over the four-year financial plan period. The bill's implementation will also generate approximately \$59 million in special purpose revenue over the four-year financial plan period. There are also additional costs that cannot be quantified at this time, including the cost to improve any District-owned properties to meet energy efficiency standards.

The bill's provisions to accelerate the solar carve-out requirement in the RPS and increase the SETF assessments will both impose additional costs on the District's energy bills. The District is responsible for meeting the RPS based on its energy usage and currently complies with the solar carve-out through the payment of alternative compliance payments. The increase in this carve-out will cost the District \$750,000 in fiscal year 2019 and approximately \$4.1 million over the four-year financial plan period. The SETF assessment remains unchanged in fiscal year 2019 and will have no impact on the District in that year, but the increase beginning in fiscal year 2020 will increase District costs by approximately \$1.8 million over the four-year financial plan period.

The bill also moves the payment of RPS-related alternative compliance payments from the spring to November 1 of each year. This change creates a one-year gap in revenues in fiscal year 2019 by pushing the spring 2019 payments into fiscal year 2020. This will reduce REDF revenues by \$20 million in fiscal year 2019.

DOEE will implement the Building Energy Performance Standard Program by building out a new division to set the standards and policies, perform the assessments, and manage overall compliance with the program. The new division will need seven new specialists, analysts, support, and management staff and, assuming DOEE begins the program's development in fiscal year 2020, will cost approximately \$2 million over the four-year financial plan period. The team will also have one-time startup costs of \$164,000 in fiscal year 2020 and ongoing operating costs \$1.2 million over the

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<sup>11</sup> This exemption also applies to trailers.

The Honorable Phil Mendelson

FIS: Bill 22-904, "CleanEnergy DC Omnibus Amendment Act of 2018," Draft Committee Print as shared with the Office of Revenue Analysis on November 19, 2018

four-year financial plan period. The bill allows DOEE to cover the costs of managing this program from the SETF. The bill also authorizes DOEE to commission a study about the impact of this program on building owners in the District with up to \$250,000 in resources from the REDF. The REDF can absorb the cost of this study with its existing resources.

The bill requires District-owned buildings over 10,000 square feet to comply with DOEE's Building Energy Performance Standard Program beginning January 1, 2021. The District is actively working to improve the energy efficiency of its buildings, but DOEE has not yet set the standards that buildings must meet. We expect that the District will require capital resources beyond those currently budgeted for deferred maintenance and other capital improvements, but absent the DOEE standards and a comprehensive study of what will be needed to meet them, we are unable to quantify these capital needs at this time.

DOEE will have to work with DSLBD to develop the Pipeline Program to encourage greater CBE participation in energy efficiency programs in the District. DOEE has not been able to determine how much the implementation of this Pipeline Program will cost, but DOEE is allowed to fund the program with a portion of the 30 percent of the incremental revenues from the bill's provisions to increase the SETF assessments.

The transportation initiatives will require DMV to update its system to accommodate multiple motor vehicle excise tax rates and will require enhanced management of the program. The system update will cost \$150,000 in fiscal year 2020. DMV will also need to hire a new analyst to manage the program, including the review of Earned Income Tax Credit exemption requests. This employee who will also start in fiscal year 2020 and will cost \$213,000 over the four-year financial plan period. The bill's provision to eliminate the excise tax for electric vehicles will reduce excise taxes, but we have not yet received data necessary to estimate the cost at this time.

The bill's additional transportation initiatives require public buses to attain 100 percent low- and zero-emissions vehicles by 2045. The first benchmark is 50 percent by 2030, which is outside the financial plan, but the District will likely need to begin to prepare for the impacts on the DC Circulator and WMATA Metrobus operations so that the costs of fleet upgrades are included in budgets as the deadlines get closer.

The bill increases the SETF assessments for natural gas and electricity and imposes a new assessment on heating and fuel oil. These amended and new assessments will generate approximately \$59 million over the four-year financial plan period. The bill commits 30 percent of these incremental revenues to fund low-income and CBE participation programs. The bill also commits \$70 million in SETF resources from fiscal year 2020 through fiscal year 2025 to the Green Finance Authority and \$3 million annually toward improving the energy efficiency of affordable housing buildings beginning in fiscal year 2022. The below chart outlines the new SETF revenues and the commitments on those resources as they exist under current law and as directed in the bill:

<b>Revenues and Commitments for the Sustainable Energy Trust Fund (SETF)</b>					
<b>Fiscal Year 2019 – Fiscal Year 2022</b>					
<b>(\$000s)</b>					
	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>Total</b>
Current Financial Plan Revenues	\$22,000	\$21,037	\$21,037	\$21,037	\$84,148
Incremental Gas and Electric Revenues	\$0	\$20,631	\$19,431	\$18,409	\$58,470
New Oil Revenues	\$0	\$93	\$93	\$93	\$372
<b>Total SETF Resources</b>	<b>\$22,000</b>	<b>\$41,761</b>	<b>\$40,561</b>	<b>\$39,538</b>	<b>\$142,990</b>
<b>Program Commitments</b>					
SEU Contract and DOEE admin	\$22,000	\$22,000	\$22,000	\$22,000	\$88,000
Green Finance Authority Transfers	\$0	\$15,000	\$15,000	\$10,000	\$40,000
Building Performance Program Mgmt.	\$0	\$1,200	\$1,072	\$1,108	\$4,525
30% Allocation for Low-Income and CBEs	\$0	\$6,217	\$5,857	\$5,550	\$17,653
Affordable Housing Programs	\$0	\$0	\$0	\$3,000	\$3,000
<b>Total Commitments</b>	<b>\$22,000</b>	<b>\$44,417</b>	<b>\$43,929</b>	<b>\$41,658</b>	<b>\$153,178</b>
SETF Surplus (Shortfall)	\$0	(\$2,656)	(\$3,368)	(\$2,120)	(\$10,188)

The chart below summarizes the bill's costs and commitments made from the REDF and SETF:

<b>CleanEnergy DC Omnibus Amendment Act of 2018</b>					
<b>Implementation Costs of Bill 22-906</b>					
<b>Fiscal Year 2019 – Fiscal Year 2022</b>					
<b>(\$000s)</b>					
	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>Total</b>
<b>District Energy Costs</b>					
Solar Compliance	\$750	\$1,143	\$1,273	\$963	\$4,129
SETF Assessments	\$0	\$685	\$642	\$605	\$1,932
<b>Total Energy Costs</b>	<b>\$750</b>	<b>\$1,828</b>	<b>\$1,915</b>	<b>\$1,568</b>	<b>\$6,061</b>
<b>REDF Collections Delay</b>	<b>\$20,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$20,000</b>
<b>Building Performance Program</b>					
DOEE Personnel	\$0	\$650	\$674	\$698	\$2,022
DOEE Startup Costs	\$0	\$164	\$0	\$0	\$164
DOEE Ongoing Costs	\$0	\$386	\$398	\$410	\$1,194
<b>Total DOEE Costs</b>	<b>\$0</b>	<b>\$1,200</b>	<b>\$1,072</b>	<b>\$1,108</b>	<b>\$3,380</b>
<b>Building Performance Study</b>	<b>\$250</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$250</b>
<b>Transportation Initiatives</b>					
DMV Personnel	\$0	\$68	\$71	\$74	\$213
DMV System Update	\$0	\$150	\$0	\$0	\$150
<b>Total DMV Costs</b>	<b>\$0</b>	<b>\$218</b>	<b>\$71</b>	<b>\$74</b>	<b>\$363</b>
<b>New SETF Commitments</b>					
Green Finance Authority Transfers	\$0	\$15,000	\$15,000	\$10,000	\$40,000
30% Allocation for Low-Income and CBE	\$0	\$6,217	\$5,857	\$5,550	\$17,653
Affordable Housing Programs	\$0	\$0	\$0	\$3,000	\$3,000
<b>Total SETF Commitments</b>	<b>\$0</b>	<b>\$21,217</b>	<b>\$20,857</b>	<b>\$18,550</b>	<b>\$60,624</b>
<b>TOTAL IMPLEMENTATION COSTS</b>	<b>\$21,000</b>	<b>\$24,463</b>	<b>\$23,915</b>	<b>\$21,300</b>	<b>\$90,678</b>