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I am Reid Detchon, Executive Director of the Energy Future Coalition, a non-partisan public policy initiative supported by foundations. Thank you, Governor O'Malley, for your leadership on this issue.

We have today in Maryland a unique opportunity for transformational change. The political stars are aligned to reform a 100-year-old system of utility regulation and redesign it to favor the state's consumers.

The objective should be a system that reduces consumer bills while rewarding utilities fairly. That is possible because so much of our energy is wasted.

If Maryland was as efficient in its use of energy as California, we would need 42% less electricity. If we could accomplish that, consumers' electric bills would be lower than they were before the recent rate increase.

The Public Service Commission took an important step last week in decoupling utility profits from sales – taking away the incentive to sell more power. Now we need an incentive for the state's utilities to save energy by investing on behalf of their consumers.

By reducing energy consumption, you free up that power to be used elsewhere. Investment in energy efficiency produces additional energy supply – cheaper, cleaner, and quicker than you can get it anywhere else. We just heard last week from Pacific Gas & Electric that despite 30 years of investment in energy efficiency, the cost of saving a kilowatt-hour there is just 3.5 cents.

There are three steps that we need to make this change:

1. Set an annual target for energy savings by the state's utilities. In effect, translate the state's new goal of 15% by 2015 into, say, annual improvements of 2%.
2. Allow the utilities to recover their cost-effective investments in energy efficiency the same way they recover other investments – through the rate base.
3. Tie utility profits to performance: If they meet their targets, they get the revenues agreed by the Public Service Commission. But if they exceed those targets, if they get more energy savings than required, then they should get higher profits. In effect, they should get a share of the savings that they are achieving.

With this approach, utilities would be highly motivated to invest in maximizing the energy efficiency of homes and businesses, large and small – at no direct cost to the consumer. Energy bills will go down immediately where they make those investments. Even for the rest of us, our bills would be lower than they would be otherwise – because we are avoiding the need for the higher-cost power that the utilities would otherwise have to buy.

This is a system benefit. Consumer incentives alone are not enough. They are ineffective, for example, with low-income families.

How can both consumers and utilities win financially? Look at the numbers. Last year the state used nearly 70 billion kilowatt-hours of electricity. At 10 cents a kilowatt-hour, that's $7 billion. A 15% reduction means $1 billion a year in savings to Maryland consumers. Providing some of that to the utilities as a carrot to achieve those savings would be a great investment. We will never be able to match with government funds or a public benefits fund what utilities can raise on capital markets.

Other states have taken steps in this direction, but Maryland can show the way for the entire nation.