SB 186

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 186 (Senator Garagiola, *et al.*)
Finance

Solar Energy Grant Fund

This bill establishes a Solar Energy Grant Fund as a special, nonlapsing fund used to award grants under the Solar Energy Grant Program. The fund primarily consists of compliance fees collected from electricity suppliers for not meeting the Renewable Energy Portfolio Standard (RPS) and any appropriated general funds.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: Because the Solar Energy Grant Fund would receive funds from an existing potential revenue source and the funding is supplemental to and not intended to take the place of other funding appropriated to the Solar Energy Grant Program, the bill would not materially affect State finances.

Local Effect: To the extent compliance fees accrue to the Solar Energy Grant Fund in FY 2008 and future years and have a significant impact on funding for the Solar Energy Grant Program, the bill could make solar energy more affordable for local government grant recipients. This could result in reduced local government expenditures for electricity in future years.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The bill requires that 50% of the compliance fees collected from electricity suppliers for shortfalls in obtaining required renewable energy credits under RPS be paid into the Solar Energy Grant Fund. These fees are currently paid into the Maryland Renewable Energy Fund, to which the other 50% of the compliance fees would continue to be paid.

The fund is administered by the Maryland Energy Administration (MEA), subject to oversight by the Public Service Commission (PSC). The fund consists of compliance fees, money appropriated in the State budget to the fund, investment earnings, and money from any other source accepted for the benefit of the fund. The fund may only be used to award grants under the Solar Energy Grant Program, though up to 10% of the funds may be used for administrative expenses. The fund is supplemental to and not intended to take the place of funding that otherwise would be appropriated for the program.

Current Law:

Solar Energy Grant Program

The Solar Energy Grant Program, which is funded with general funds, is administered by MEA. Grants are awarded for the acquisition and installation of photovoltaic and solar water heating property that meet applicable performance and quality standards and certification requirements specified by MEA. **Exhibit 1** lists the current grant limits.

Exhibit 1
Grant Award Limits under the Solar Energy Grant Program

	Grant Award Limits (the lesser of $ amount or % of total installed cost)
Photovoltaic property (residential)	$3,000 – 20%
Photovoltaic property (nonresidential)	$5,000 – 20%
Solar water heating property	$2,000 – 20%

Renewable Energy Portfolio Standard

RPS was established with the intent of recognizing the economic, environmental, fuel diversity, and security benefits of renewable energy resources, establishing a market for electricity from those resources in Maryland, and lowering consumers' cost for electricity from renewable sources. RPS is implemented by PSC and applies to all retail electricity sales in the State by electricity suppliers, subject to certain exceptions.

An electricity supplier must meet RPS by accumulating renewable energy credits (commodities equal to the renewable energy generation attributes of one megawatt-hour of electricity) created from various renewable energy sources classified as Tier 1 and Tier 2 renewable sources. Tier 1 renewable sources include solar, wind, qualifying biomass, methane from the anaerobic decomposition of organic materials in a landfill or wastewater treatment plant, and geothermal sources. Tier 2 renewable sources include hydroelectric power other than pump storage generation, incineration of poultry litter, and waste-to-energy sources. Electricity suppliers must accumulate renewable energy credits from Tier 1 and Tier 2 sources equivalent to specified percentages of the supplier's electricity sales.

Renewable energy credits may be sold or otherwise transferred, last for three years from the date they are created, and generally must originate within the PJM Interconnection, Inc. (PJM) control area or in a state adjacent to the area. PJM Interconnection, Inc. is the regional electrical transmission organization that serves Maryland. It coordinates the flow of electricity from power plants to distribution companies in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, and the District of Columbia.

On April 1 of each year, each electricity supplier must submit a report to PSC demonstrating either compliance with RPS (including the required amount of renewable energy credits) or the amount of electricity sales by which the supplier failed to meet the standard. If a supplier fails to meet RPS, it must pay into the Maryland Renewable Energy Fund a compliance fee of 2 cents for each kWh of shortfall from required Tier 1 renewable sources and 1.5 cents for each kWh of shortfall from Tier 2 renewable sources. Lower compliance fees apply to specified industrial electricity sales.

The Maryland Renewable Energy Fund, administered by MEA and subject to oversight by PSC, is a special, nonlapsing fund, that must be used to make loans and grants to support the creation of new Tier 1 renewable energy sources in the State. PSC has set out project evaluation criteria by regulation, and the fund appears to be geared toward development of larger scale Tier 1 renewable energy sources that would generate renewable energy credits to satisfy RPS requirements. MEA is responsible for the receipt and review of project applications and approval or disapproval of loans and grants from the fund.

Background: The Solar Energy Grant Program was created by Chapter 128 of 2004 and took effect January 1, 2005. The fiscal 2006 budget included a $75,000 general fund appropriation for the program and funding was increased in fiscal 2007 to $1.5 million. The fiscal 2007 budget bill allows MEA to transfer money appropriated for the Solar Energy Grant Program in fiscal 2007 to the Geothermal Heat Pump Grant Program. The Governor's proposed fiscal 2008 budget provides $1.2 million for the Solar Energy Grant Program. Money allocated to the program that is not expended or encumbered is returned to the general fund at the end of the fiscal year.

Through the first half of fiscal 2007, MEA had awarded almost $180,000 for 80 solar energy grants as well as another $20,000 for several geothermal grants. MEA expects to receive significantly more grant applications in the second half of fiscal 2007, due to increased outreach and marketing of the program. Even so, MEA projects that about half of the $1.5 million budgeted will not be spent in fiscal 2007.

RPS was established by Chapter 488 of 2004 and was first applicable to electricity sales in 2006. April 1, 2007 will be the first time electricity suppliers will have to submit a report to PSC and pay compliance fees if a supplier has not met RPS. Electricity suppliers that do not submit the required report to PSC would still be subject to compliance fees.

PSC advises that the cost of renewable energy credits is well below the cost of compliance fees that would have to be paid for a shortfall and therefore expects most electricity suppliers to meet RPS rather than pay compliance fees in fiscal 2007. Collection of compliance fees in fiscal 2008 and future years should generally depend on the market price and availability of renewable energy credits in the months leading up to the April 1 reporting deadline relative to the compliance fees. However, it is also unpredictable whether compliance fees may be collected from suppliers that inadvertently fail to acquire the necessary renewable energy credits. A recent analysis by the Department of Natural Resources' Power Plant Research Program of available Tier 1 and Tier 2 resources in the PJM region and adjacent states found that there should be enough available resources to meet Maryland's RPS requirements through 2019.

State Fiscal Effect: With April 1, 2007 being the first time electricity suppliers will have to demonstrate having met the RPS standard, no compliance fees have accrued to the Maryland Renewable Energy Fund to date and it is uncertain whether any fees will accrue to the fund in the near future. The bill would redirect 50% of any RPS compliance fees to the Solar Energy Grant Fund instead of the Maryland Renewable Energy Fund, both of which are administered by MEA and were established to increase the generation and use of renewable energy in Maryland. Therefore, it would not have an overall impact on State special fund revenues or expenditures.

The bill requires that money expended from the fund be supplemental to and not replace other funding for the program. However, current funding for the program is discretionary. Thus, to the extent compliance fees accrue to the Solar Energy Grant Fund in fiscal 2008 and future years and have a significant impact on funding for the Solar Energy Grant Program, there could be a decrease in general funds appropriated to the program.

Small Business Effect: In the event that compliance fees accrue to the Solar Energy Grant Fund and allow for more funding to be awarded for solar energy projects in fiscal 2008 and future years, the bill could have a meaningful effect on small businesses that work on solar energy projects in Maryland. MEA advises that approximately a dozen small companies have worked on recent solar projects in Maryland, of which four are very active. Among those companies, there are approximately 30 employees and 12 to 15 of those jobs were created since the Solar Energy Grant Program began. MEA advises that a long-term, predictable financial incentive will continue to create jobs in the solar and renewable energy industry.

Additional Information

Prior Introductions: Similar legislation was introduced in the 2006 session as SB 469 and HB 418. SB 469 received an unfavorable report by the Senate Finance Committee. HB 418 was passed by the House and received an unfavorable report by the Senate Finance Committee.

Cross File: HB 328 (Delegates Doory and Feldman) – Economic Matters.

Information Source(s): Comptroller's Office, Maryland State Treasurer's Office, Maryland Energy Administration, Public Service Commission, Department of Natural Resources, Maryland Office of the People's Counsel, Department of Legislative Services

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