

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 1392
Economic Matters

(Delegate Mautz)

Finance

Renewable Energy Portfolio Standard - Municipal Electric Utilities

This bill limits the annual percentage requirements of the State’s Renewable Energy Portfolio Standard (RPS) for municipal electric utilities to 20.4% in total, including 1.95% from solar energy and up to 2.5% from offshore wind.

Fiscal Summary

State Effect: The Public Service Commission can implement the bill with existing budgeted resources. Renewable energy credit (REC) prices are not anticipated to be materially affected, and, therefore, neither are State expenditures on electricity – although there is a slight downward pressure on REC prices. The bill is not anticipated to materially affect special fund revenue from Alternative Compliance Payments.

Local Effect: Local expenditures for RECs by municipal electric utilities in Frederick, Talbot, Washington, and Worcester counties decrease by \$1.7 million in FY 2021, by \$2.3 million annually in FY 2022 and 2023, by \$2.7 million in FY 2024, and by likely more than \$3.2 million in FY 2025. Local revenues are not directly affected.

Small Business Effect: Minimal.

Analysis

Current Law: Municipal electric utilities are not exempt from Maryland’s RPS. Electric cooperatives are exempt from future increases to the solar portion beyond 2.5%. The RPS also does not apply to a customer served by an electric cooperative under an electricity supplier purchase agreement that existed on October 1, 2004, until the expiration of the

agreement, as the agreement may be renewed or amended (*i.e.*, a customer of Choptank Electric Cooperative).

Background: There are five municipal electric utilities in the State: Berlin (Worcester County), Easton (Talbot County), Hagerstown (Washington County), Thurmont (Frederick County), and Williamsport (Washington County). Combined, these five utilities are forecast to supply about 735,000 to 750,000 megawatt-hours of electricity annually over the coming decade. For context, that is about 1.2% to 1.3% of the State’s estimated energy sales in those years. For additional information on Maryland’s RPS, see the **Appendix – Renewable Energy Portfolio Standard**.

Local Expenditures: Limiting the RPS percentage requirements going forward reduces the amount of RECs that municipal electric utilities must purchase for RPS compliance each year. Using forecast REC prices from a recent comprehensive [report](#) prepared by the Power Plant Research Program in the Department of Natural Resources, combined local expenditures decrease by \$1.7 million in fiscal 2021, by \$2.3 million annually in fiscal 2022 and 2023, by \$2.7 million in fiscal 2024, and by likely more than \$3.2 million in fiscal 2025. Expenditures also continue to be less than they otherwise would have been thereafter. These effects are shown in **Exhibit 1**.

Exhibit 1
Combined RPS Expenditures by Municipal Electric Utilities
Fiscal 2021-2025

Calendar Year	Energy Sales (Mwh)	RECs Required	Calendar Year (\$)	Fiscal Year	Fiscal Year (\$)
2021	738,000	-76,752	-\$2,480,031	2021	-\$1,707,910
2022	740,000	-93,980	-2,129,369	2022	-2,304,700
2023	743,000	-111,450	-2,537,653	2023	-2,333,511
2024	745,000	-128,885	-2,961,122	2024	-2,749,388
2025	748,000	-146,608	-3,409,025	2025	-3,185,073

Mwh: Megawatt-hour; REC: renewable energy credit; RPS: Renewable energy portfolio standard

Notes: There are five municipal electric utilities in the State: Berlin (Worcester County), Easton (Talbot County), Hagerstown (Washington County), Thurmont (Frederick County), and Williamsport (Washington County). Calendar-to-fiscal year conversion splits annual compliance costs evenly between fiscal years. Fiscal 2021 savings includes the final quarter of calendar 2020. Savings beginning in 2025 may be larger if new offshore wind is procured under current law.

Source: Public Service Commission; Department of Natural Resources; Department of Legislative Services

Additional Information

Prior Introductions: None.

Designated Cross File: SB 677 (Senator Eckardt) - Finance.

Information Source(s): Public Service Commission; Office of People's Counsel; Maryland Energy Administration; Department of Natural Resources; Department of Legislative Services

Fiscal Note History: First Reader - February 20, 2020
rh/lgc Third Reader - March 13, 2020

Analysis by: Stephen M. Ross

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix – Renewable Energy Portfolio Standard

Maryland’s Renewable Energy Portfolio Standard (RPS) was enacted in 2004 to facilitate a gradual transition to renewable sources of energy. There are specified eligible (“Tier 1” or “Tier 2”) sources as well as carve-outs for solar and offshore wind. Electric companies (utilities) and other electricity suppliers must submit renewable energy credits (RECs) equal to a percentage specified in statute each year or else pay an alternative compliance payment (ACP) equivalent to their shortfall. Historically, the requirements have been met almost entirely through RECs, with negligible reliance on ACPs. The Maryland Energy Administration must use ACPs to support new renewable energy sources.

Chapter 757 of 2019 significantly increased the percentage requirements, which now escalate over time to a minimum of 50% from Tier 1 sources, including 14.5% from solar, by 2030. In 2020, the requirements are 28% for Tier 1 sources, including at least 6.0% from solar, plus 2.5% from Tier 2 sources. Tier 2 terminates after 2020.

Generally, a REC is a tradable commodity equal to one megawatt-hour of electricity generated or obtained from a renewable energy generation resource. In other words, a REC represents the “generation attributes” of renewable energy – the lack of carbon emissions, its renewable nature, *etc.* A REC has a three-year life during which it may be transferred, sold, or redeemed. REC generators and electricity suppliers are allowed to trade RECs using a Public Service Commission (PSC) approved system known as the Generation Attributes Tracking System, a trading platform designed and operated by PJM Environmental Information Services, Inc. that tracks the ownership and trading of RECs.

Tier 1 sources include wind (onshore and offshore); qualifying biomass; methane from anaerobic decomposition of organic materials in a landfill or wastewater treatment plant; geothermal; ocean, including energy from waves, tides, currents, and thermal differences; a fuel cell that produces electricity from specified sources; a small hydroelectric plant of less than 30 megawatts; poultry litter-to-energy; waste-to-energy; refuse-derived fuel; and thermal energy from a thermal biomass system. Eligible solar sources include photovoltaic cells and residential solar water-heating systems commissioned in fiscal 2012 or later. Tier 2 includes only large hydroelectric power plants.

RPS Compliance

According to the most recent RPS compliance [report](#) on PSC’s website, electricity suppliers retired 11.1 million RECs at a cost of \$84.8 million in 2018. This is a continuation of the significant REC price reduction first observed in the 2017 compliance data, relative to the previous trend, as shown in **Exhibit 1**.

In 2018, wind (50%), black liquor (15%), small hydroelectric (12%), municipal solid waste (12%), and wood and waste solids (6%) were the primary energy sources used for Tier 1 RPS compliance. Maryland facilities generated 5.4 million RECs in 2018, which were used for compliance in Maryland and also in several other states; likewise, Maryland electricity suppliers used RECs from other states for compliance with Maryland’s RPS.

Exhibit 1
RPS Compliance Costs and REC Prices
2014-2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Compliance Costs (\$ Millions)					
Tier 1 Nonsolar	\$70.6	\$85.1	\$88.2	\$50.0	\$56.4
Tier 1 Solar	29.4	39.1	45.6	21.3	27.4
Tier 2	<u>4.0</u>	<u>2.6</u>	<u>1.4</u>	<u>0.7</u>	<u>1.0</u>
Total	\$104.0	\$126.7	\$135.2	\$72.0	\$84.8
Average REC Price (\$)					
Tier 1 Nonsolar	\$11.64	\$13.87	\$12.22	\$7.14	\$6.54
Tier 1 Solar	\$144.06	\$130.39	\$110.63	\$38.18	\$31.91
Tier 2	\$1.81	\$1.71	\$0.96	\$0.47	\$0.66

Note: Numbers may not sum to total due to rounding.

REC: renewable energy credit

RPS: Renewable Energy Portfolio Standard

Source: Public Service Commission

Pursuant to Chapter 393 of 2017, the Power Plant Research Program in the Department of Natural Resources has released its final report on a comprehensive study of the RPS. The report contains historical data but also looks at future scenarios. The report can be found [here](#) or on the department’s website.