SB 887

Department of Legislative Services

Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 887 (Senator West, *et al.*)

Finance and Education, Health, and Environmental Affairs

Electric Generation - Transition From Fossil Fuels - Carbon Dioxide Emissions Rate and Transition Account

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This bill (1) establishes a cap on carbon dioxide (CO_2) emissions for "affected electric generating units," with a staggered timeline for implementation; (2) establishes a Fossil Fuel Community Transition Account and related advisory board within the Department of Commerce (Commerce) to provide grants for specified individuals and communities affected by the transition from fossil fuels and the retirement of electric generating units; (3) redirects proceeds from specified accounts within the Strategic Energy Investment Fund (SEIF) to the transition account to provide grant funding; and (4) establishes related reporting requirements.

Fiscal Summary

State Effect: General fund expenditures increase by $85,200 in FY 2021; future years reflect annualization. The bill redirects approximately $7.8 million in FY 2021 and $10.4 million annually thereafter of SEIF special funds. Potential decrease in special fund revenues from emissions fees and the Regional Greenhouse Gas Initiative (RGGI) auction proceeds (not reflected below).

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues	$0	$0	$0	$0	$0
GF Expenditure	$85,200	$102,900	$105,500	$109,100	$112,900
Net Effect	($85,200)	($102,900)	($105,500)	($109,100)	($112,900)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Potential significant decrease in local property tax revenues beginning in FY 2024 for affected counties, partially offset by grants. Local governments may also be affected by the redirection of SEIF funds, as discussed below.

Small Business Effect: Meaningful.

Analysis

Bill Summary: "Affected electric generating unit" means an electric generating unit in the State that primarily burns coal as fuel; it includes (1) Brandon Shores Units 1 and 2; (2) Chalk Point Units 1 and 2; (3) Dickerson Units 1, 2, and 3; (4) H.A. Wagner Units 2 and 3; (5) Morgantown Units 1 and 2; and (6) Warrior Run Unit 1. "Affected county" means a county that is impacted by the permanent retirement of an electric generating unit; it includes Allegany, Anne Arundel, Charles, Montgomery, and Prince George's counties.

Carbon Dioxide Emissions Rate

The bill establishes that the CO_2 rate for an affected electric generating unit may not exceed 180 pounds per million British thermal units. This CO_2 rate applies beginning (1) October 1, 2023, for Chalk Point Units 1 and 2, Dickerson Units 1, 2, and 3, and H.A. Wagner Units 2 and 3; (2) October 1, 2024, for Morgantown Units 1 and 2; (3) October 1, 2025, for Brandon Shores Units 1 and 2; and (4) March 1, 2030, for Warrior Run Unit 1.

Fossil Fuel Community Transition Account and SEIF Funding Shift

The stated purpose of the transition account is to provide grants to support (1) individuals transitioning from employment with an electric generating unit and (2) communities that are affected by the permanent retirement of an electric generating unit. The transition account may only be used to award grants consistent with these purposes, as specified, including, for up to three years following the permanent retirement of an electric generating unit, payments to an affected county to offset losses in tax revenue due to the permanent retirement of the unit. Commerce must establish policies and procedures for the administration of the account, including the grant application process and criteria for awarding grants.

The bill decreases the percentage (from at least 20% to at least 10%) of the proceeds received by SEIF from the sale of allowances RGGI that is credited to the energy efficiency and conservation programs account and the renewable and clean energy programs account. The bill redirects these revenues (at least 20% of the proceeds) to Commerce to award grants from the transition account. The bill makes a conforming change to the authorized uses of SEIF.

Fossil Fuel Transition Account Advisory Board

The bill establishes provisions regarding the membership of the advisory board and requires it to meet at least twice a year. The board must (1) review Commerce's proposals for grant awards from the transition account and (2) make recommendations to Commerce regarding any proposed grant award. Commerce must consider the board's recommendations when making decisions about grant awards. Board members may not receive compensation, but are entitled to reimbursement for expenses. Commerce must provide staff for the board.

Required Annual Report

By January 1 each year, Commerce must report to the Governor, the board, and the General Assembly on the grants awarded from the transition account during the prior fiscal year, including (1) the number of grants awarded; (2) the amount of each grant awarded; (3) the names of the grant recipients; and (4) the specific purpose of each grant awarded.

Current Law:

Maryland's Healthy Air Act and Greenhouse Gas Emissions Reduction Act

The Healthy Air Act of 2006 established emission limits for nitrogen oxides, sulfur dioxide, and mercury from specified electric generating facilities in the State. The Act also addressed CO_2 emissions by requiring the Governor to include the State in RGGI. In 2007, Maryland joined RGGI, a cap-and-trade program established in conjunction with eight other northeastern and mid-Atlantic states. Each state limits CO_2 emissions from electric power plants, issues CO_2 allowances, and establishes participation in CO_2 allowance auctions. In August 2017, the participating states agreed to further reduce the program's carbon pollution cap.

The Greenhouse Gas (GHG) Reduction Act, originally enacted in 2009 and made permanent and expanded in 2016, was enacted in light of Maryland's particular vulnerability to the impacts of climate change. Under the Act, the State must develop plans, adopt regulations, and implement programs to reduce GHG emissions by 25% from 2006 levels by 2020 and must further reduce GHG emissions by 40% from 2006 levels by 2030; the 2030 reduction requirement terminates December 31, 2023.

Regional Greenhouse Gas Initiative

Ten states currently participate in RGGI: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont. Additionally, according to the Natural Resources Defense Council, Inc., Virginia has finalized a regulation that will allow it to participate in RGGI beginning January 1, 2021. Further, the Governor of Pennsylvania signed an executive order in October 2019 that directs the Pennsylvania Department of Environmental Protection to propose a regulation to cut carbon pollution from the state's power plants; the proposal must also enable Pennsylvania to participate in RGGI.

In order to reduce CO_2 emissions from the power sector, each participating state limits CO_2 emissions from electric power plants, issues CO_2 allowances, and establishes participation in CO_2 allowance auctions. A single CO_2 allowance represents a limited authorization to emit one ton of CO_2. Total allowances in the Maryland program are 19.1 million in 2017, which decreases over time to 17.7 million by 2020.

In Maryland, RGGI auction proceeds are deposited in SEIF, as discussed below.

Strategic Energy Investment Fund

The Strategic Energy Investment Program has the stated purpose of decreasing energy demand and increasing energy supply to promote affordable, reliable, and clean energy to fuel Maryland's future prosperity. The program is supported by SEIF, which receives, among other funding, proceeds from the RGGI auctions. SEIF may be used to, among other things, invest in the promotion, development, and implementation of climate change programs directly related to reducing or mitigating the effects of climate change.

The proceeds received by SEIF from the auction of carbon allowances under RGGI are subject to statutory allocations. Among other allocation requirements, at least 20% of the proceeds must be credited to an energy efficiency and conservation programs account, as specified. In addition, at least 20% of the proceeds must be credited to a renewable and clean energy programs account for (1) renewable and clean energy programs and initiatives; (2) energy-related public education and outreach; and (3) climate change and resiliency programs.

For more information on SEIF funding, please see the Department of Legislative Services' (DLS) analysis (p. 18) of the Governor's proposed fiscal 2021 operating budget for the Maryland Energy Administration (MEA).

State Fiscal Effect: The bill affects State revenues and expenditures in several ways. The various impacts are described below.

Effects of Redirection of RGGI Auction Proceeds

The bill redirects RGGI auction proceeds from SEIF accounts that are used for energy efficiency and conservation programs and renewable and clean energy programs to the new Fossil Fuel Community Transition Account, which results in a corresponding shift in special fund revenues and expenditures. Specifically, the bill reduces funding for the current accounts by 10% each and requires that at least 20% of the RGGI auction proceeds be distributed to the transition account. **Exhibit 1** shows the annual effect of the redistribution of revenues under the bill. DLS notes that the Governor's proposed fiscal 2021 budget establishes an additional $12 million obligation for SEIF, so under the Governor's proposed budget, approximately $8.3 million would be available for the transition account. The effects in fiscal 2021 are reduced by 25% from the amounts shown below due to the bill's October 1, 2020 effective date.

Exhibit 1
Estimated Annual Revenues for Affected Accounts Under the Bill

Account	Current Law	Bill	Difference
Energy Efficiency and Conservation	$10,380,000	$5,190,000	($5,190,000)
Renewable and Clean Energy	10,380,000	5,190,000	(5,190,000)
Fossil Fuel Community Transition	n/a	$10,380,000	$10,380,000

Note: This exhibit shows the minimum funding required under law. The Governor's proposed fiscal 2021 budget reflects higher than the minimum required distribution to the energy efficiency and conservation and the renewable and clean energy accounts. This estimate assumes the Regional Greenhouse Gas Initiative proceeds total $54 million annually and reflects specified payments that must be made prior to the allocation of funds to the affected accounts.

Source: Department of Legislative Services

MEA and the Maryland Department of the Environment (MDE) are allocated the largest amounts of funding from the SEIF energy efficiency and renewable and clean energy programs accounts. Redirecting funding from those agencies limits funding available (1) for energy efficiency programs funded by MEA; (2) to assist in the deployment of clean energy technologies under MEA programs; and (3) to conduct climate change related programmatic activities of MDE. Instead, the redirected funding is used by Commerce to provide grants from the transition account.

General Effect on RGGI Auction Proceeds

To the extent that the bill's cap on carbon emissions from affected electric generators results in the closure of these facilities, there may also be an impact on overall RGGI auction proceeds, since the number of allowances are linked to overall

CO_2 emissions. As a result, the bill may also affect allowance prices. MDE advises that in 2018, the sale of RGGI CO_2 allowances associated with the six affected facilities resulted in more than $50 million in RGGI proceeds. Since RGGI allowances are part of a larger regional allowance market, however, any impact will be spread among all RGGI participants, not just Maryland. Nevertheless, SEIF revenues from RGGI auctions may decrease under the bill. Any such decrease is not reflected in this analysis.

MDE Special Fund Fee Revenues

MDE collects emission-based fees from the affected electric generators. MDE advises that none of the affected facilities currently meet the carbon emissions cap established under the bill. Accordingly, unless the affected facilities install carbon capture control measures, the facilities must shut down in accordance with the timeline established under the bill. MDE advises that once the bill is fully implemented, the annual loss in funding from these fees is estimated to be $2 million. However, DLS does not have enough information to evaluate the potential effects of the bill on emission-based fee revenue; thus, this analysis does not account for any associated special fund revenue loss. Any such impact would not occur until fiscal 2024 at the earliest.

Commerce Administrative Expenditures

General fund expenditures for Commerce increase by $85,184 in fiscal 2021, which accounts for the bill's October 1, 2020 effective date. This estimate reflects the cost of hiring one industrial development officer to (1) establish policies and procedures to administer the account; (2) staff and provide support to the advisory board; (3) administer the fund and award grants; and (4) compile and submit the required annual report. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses. Because the transition account can only be used to award grants, it is assumed that general funds are required to cover Commerce's administrative costs.

Position	1
Salary and Fringe Benefits	$79,818
Operating Expenses	5,366
Commerce FY 2021 Administrative Costs	**$85,184**

Future year expenditures reflect a full salary with annual increases and employee turnover and ongoing operating expenses.

Local Fiscal Effect: To the extent that bill's cap on carbon emissions from affected electric generating units results in the closure of these facilities, there is a significant decrease in annual property tax revenues for affected counties. This loss in property tax revenues may be partially offset by grants provided to the affected counties from the transition account; however, there is significantly less funding available in that account than the counties collect on an annual basis from property taxes from the affected electric generating units. Additionally, funding from the transition account for payments to affected counties is only available for up to three years following the permanent retirement of an electric generating unit.

For example, Prince George's County advises that the county collects approximately $45.0 million annually from Chalk Point Units 1 and 2. Charles County advises that the Morgantown Plant is the county's highest taxpayer, generating approximately $8.5 million in tax revenues annually.

It is uncertain how the redirection of RGGI auction proceeds affects existing programs funded with special funds under the two affected SEIF accounts; however, the shift may reduce funding available to some local governments under existing or future financial assistance programs funded through the affected SEIF accounts in the absence of the bill.

Small Business Effect: Similar to the effect on local governments, the redirection of SEIF special fund revenues and expenditures may reduce funding for existing or future financial assistance programs funded through the affected SEIF accounts that are available to small businesses or that fund projects supported by small businesses. However, new funding opportunities may be available under the transition account.

Additional Comments: This analysis does not reflect any potential increases in electricity prices that may result from the bill's changes.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 1545 (Delegate Barve, *et al.*) - Economic Matters.

Information Source(s): Department of Commerce; Charles and Prince George's counties; Maryland Association of Counties; Maryland Department of the Environment; Department of Human Services; Maryland Department of Labor; Department of Natural Resources; Maryland Energy Administration; Office of People's Counsel; Public Service Commission; Natural Resources Defense Council, Inc.; Governor's Office of the Commonwealth of Pennsylvania; RGGI, Inc.; Department of Legislative Services

Fiscal Note History: First Reader - February 24, 2020
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