

D13A13
Maryland Energy Administration

Operating Budget Data

(\$ in Thousands)

	<u>FY 15</u> <u>Actual</u>	<u>FY 16</u> <u>Working</u>	<u>FY 17</u> <u>Allowance</u>	<u>FY 16-17</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$46,154	\$45,173	\$55,917	\$10,744	23.8%
Deficiencies and Reductions	0	0	-6	-6	
Adjusted Special Fund	\$46,154	\$45,173	\$55,911	\$10,738	23.8%
Federal Fund	1,248	1,103	5,922	4,819	437.1%
Deficiencies and Reductions	0	0	-1	-1	
Adjusted Federal Fund	\$1,248	\$1,103	\$5,921	\$4,818	437.0%
Reimbursable Fund	203	134	134	-1	-0.5%
Adjusted Reimbursable Fund	\$203	\$134	\$134	-\$1	-0.5%
Adjusted Grand Total	\$47,606	\$46,410	\$61,966	\$15,556	33.5%

- The fiscal 2017 allowance of the Maryland Energy Administration (MEA) increases by \$15.6 million, or 33.5%, compared to the fiscal 2016 working appropriation after accounting for the back of the bill reduction for health insurance.
- Special funds in the MEA fiscal 2017 allowance increase by \$10.7 million, or 23.8%, compared to the fiscal 2016 working appropriation. This increase occurs primarily among funding available to MEA through conditions required by the Public Service Commission (PSC) in proceedings related to the merger of Exelon Corporation and Constellation Energy Group and a Certificate of Public Convenience and Necessity for Dominion Cove Point LNG, LP.
- Federal funds in the MEA fiscal 2017 allowance increase by \$4.8 million, or 437.0%, compared to the fiscal 2016 working appropriation, largely as a result of State Energy Program funds available from the American Recovery and Reinvestment Act of 2009 originally invested in the State Agency Loan Program, which are being repurposed for a grant program for State agency energy efficiency.

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

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Personnel Data

	<u>FY 15 Actual</u>	<u>FY 16 Working</u>	<u>FY 17 Allowance</u>	<u>FY 16-17 Change</u>
Regular Positions	32.00	32.00	30.00	-2.00
Contractual FTEs	<u>9.60</u>	<u>10.50</u>	<u>9.50</u>	<u>-1.00</u>
Total Personnel	41.60	42.50	39.50	-3.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	1.50	5.00%
Positions and Percentage Vacant as of 12/31/15	15.00	46.88%

- The fiscal 2017 allowance abolishes 2.0 vacant regular positions in anticipation of efficiencies achieved as a result of the co-location with the Maryland Department of the Environment (MDE) in December 2015.
- MEA turnover expectancy increases slightly from 4.92% in the fiscal 2016 working appropriation to 5.0% in the fiscal 2017 allowance. To meet its turnover expectancy, MEA would need to maintain 1.5 vacant positions.
- As of January 1, 2016, MEA had 15.0 vacant positions, a vacancy rate of 46.9%. After accounting for the 2.0 vacant positions abolished in the fiscal 2017 allowance, the MEA vacancy rate would be 43.3%. Of the 15.0 vacancies, 10.0 became vacant after October 1, 2015. **MEA should explain the significant departure of employees from MEA in recent months and the impact of the high vacancy rate on the work of the agency, particularly given the increased funding available to the agency in fiscal 2017. In addition, the Department of Legislative Services recommends an increase in the turnover expectancy to better reflect recent experience.**
- The fiscal 2017 allowance also eliminates 1.0 contractual full-time equivalent. The individual was responsible for a pilot program related to commercial building energy efficiency, and the pilot is completed.

Analysis in Brief

Major Trends

Program-specific Performance Measures: Committee narrative in the 2015 *Joint Chairmen’s Report* requested that MEA begin reporting performance related to agency programs and activities along with process toward State energy goals in its annual Managing for Results (MFR) submission, beginning with the fiscal 2017 submission. MEA did not include program-specific measures in its fiscal 2017 MFR submission.

American Council for an Energy-Efficient Economy Scorecard: Maryland has been in the top 10 states in the American Council for an Energy-Efficient Economy Scorecard since the 2011 scorecard. In the 2015 scorecard, Maryland ranked seventh. Maryland was one of the most improved states in that year.

Renewable Energy Generated: Megawatt hours of residential and small commercial renewable energy generated in-state has increased in each year since calendar 2011 and is estimated to have increased by 124.0% compared to the prior year in calendar 2015. Megawatt hours of commercial scale renewable energy generated in-state varied little between calendar 2012 and 2014 but are estimated to have increased by 11.2% in calendar 2015. In total, approximately 3.6 million megawatt hours of renewable energy were generated in-state in calendar 2015, 3.4 million of which was commercial scale.

Issues

Regional Greenhouse Gas Initiative Revenue and Allocation: Allowance prices from the Regional Greenhouse Gas Initiative (RGGI) carbon dioxide emission allowance auctions have increased since program changes were announced in calendar 2013. In the December 2015 auction, the allowance price reached \$7.50, the highest in program history. The revenue generated from the auction continues to outpace projections and, as a result, despite a transfer to the General Fund in fiscal 2015, fund balances in the Strategic Energy Investment Fund remain substantial. The fiscal 2017 allowance includes a decrease in anticipated revenue from RGGI auctions compared to current fiscal 2016 estimates, primarily because of containment reserve allowances that boosted revenue in fiscal 2016. The Governor has proposed legislation (SB 389 and HB 459) that would divert up to \$10 million per year of RGGI proceeds to the Environmental Trust Fund. While this diversion is not accounted for in the fiscal 2017 allowance, the reduction in funds that would result from the diversion could be accommodated primarily by using fund balance in all allocations, except in the general energy efficiency allocation.

EmPOWER Maryland: During calendar 2015, PSC announced new energy savings goals in the EmPOWER Maryland program. The new goals changed the basis for calculating the energy savings goals from a per capita reduction, which was not weather normalized, to a reduction from weather normalized gross electric sales. PSC is also considering separate low-income and natural gas savings

goals. The new goals, because they are utility-specific, do not include programs run by the State or account specifically for State agency savings.

Recommended Actions

	<u>Funds</u>
1. Add budget bill language restricting special funds until program-specific performance measures are submitted.	
2. Increase turnover expectancy to 15% to better reflect recent experience.	\$ 315,146
3. Delete funds from the Environmental Trust Fund.	250,000
4. Add budget bill language requiring information on the Regional Greenhouse Gas Initiative revenue and allocation in the fiscal 2017 budget books.	
Total Reductions	\$ 565,146

Updates

MEA Move: MEA moved its offices from a location in Annapolis to co-locate with MDE at Montgomery Park in Baltimore in December 2015. MEA is in a temporary location in the building but will move to a permanent location in the building later in calendar 2016. Neither MEA nor MDE have identified the costs of the move as of this writing. While the move is expected to provide savings to the State and MEA, only limited savings are accounted for in the fiscal 2017 allowance.

Green Bank Study: Chapter 365 of 2014 required the Maryland Clean Energy Center (MCEC), in coordination with MEA, to conduct a study and make recommendations related to green banks and financing initiatives. The final report was submitted in December 2015. The report concluded that MCEC was in a good position to serve as Maryland's green bank. According to the report, this change would require minimal (if any) statutory changes. The report recommends a total investment of \$40 million by the State as seed funds for the green bank. No funds are included in the fiscal 2017 allowance for this purpose.

D13A13
Maryland Energy Administration

Operating Budget Analysis

Program Description

The Maryland Energy Administration (MEA) is an independent unit of State government with a mission of promoting affordable, secure, and safe energy while maintaining energy independence, sustainability, and reliability through innovative and effective policies, programs, technologies, and financing mechanisms. Consistent with this mission, MEA conducts planning activities for a variety of energy sources; administers the Strategic Energy Investment Fund (SEIF); administers programs aimed at increasing energy efficiency and increasing the use of renewable and clean energy; and advises the Governor's Office on energy policy. MEA programs affect local and State government, nonprofit organizations, residential consumers, and commercial and industrial consumers. The key goals of MEA are to:

- increase Maryland's energy efficiency and energy conservation;
- reduce State agency energy consumption;
- improve the energy efficiency of local governments, nonprofits, and businesses;
- increase electricity generation fuel diversity through the increased use of in-state renewable energy; and
- diversify that State's transportation network by encouraging the utilization of electric vehicles.

Performance Analysis: Managing for Results

1. Program-specific Performance Measures

The Managing for Results (MFR) submission of MEA, with limited exception for two pay-as-you-go (PAYGO) programs, focuses on statewide activities rather than outcomes of MEA administered programs. MEA has several years of experience with programs funded from the SEIF and could report outcomes from specific programs. Committee narrative in the 2015 *Joint Chairmen's Report* requested that MEA begin reporting performance related to agency programs and activities along with progress toward State energy goals in its annual MFR submission beginning with the fiscal 2017 submission. Despite this request, the fiscal 2017 MFR submission of MEA does not include new measures to respond to the request by the budget committees. **MEA should comment on why it did not include program specific measures as requested by the committees. The Department of**

Legislative Services (DLS) again recommends that MEA begin to include program-specific performance measures in its MFR submission.

Although MEA did not include program-specific performance measures in its MFR submission, the agency produces an annual report for the SEIF that includes a description of various programs funded through the SEIF. For those programs administered by MEA, some information on the number of grants and energy savings as a result of the grants is included. **Exhibit 1** provides information on some programs contained in the fiscal 2015 report.

**Exhibit 1
Grants and Energy Savings
Fiscal 2015**

	<u>Grants</u>	<u>kWh Saved</u>	<u>MMBTU</u>
Commercial and Industrial Grant Program	14	13,174,213	
Small Business Energy Advance Program	443	12,274,488	
Clean Energy Communities Low-to-Moderate Income Grant Program	56	1,611,104	15,067
Game Changer Competitive Grant Program*	2	714,263	
Kathleen A. P. Mathias Agricultural Energy Efficiency Program*	13	99,601	1,796

kWh: Kilowatt hours

MMBTU: million British Thermal Units

* Projects may also be combined with renewable energy and as a result, include installed renewable energy capacity. In fiscal 2015, 204 kilowatts of solar capacity were installed in the Agricultural program and 430 kW of renewable capacity in Game Changer Grant program.

Note: Small Business Energy Advance program is administered by Baltimore Gas and Electric through a grant provided by the Maryland Energy Administration available from Customer Investment Funds. Kilowatt hour savings are from electric energy efficiency measures. MMBTU savings are from natural gas, propane, and diesel efficiency measures.

Source: Maryland Energy Administration

2. American Council for an Energy-Efficient Economy Scorecard

The American Council for an Energy-Efficient Economy (ACEEE) is a nonprofit organization founded in 1980 with a mission to advance energy efficiency policies, programs, technologies, investments, and behaviors. Since 2007, ACEEE has annually produced a state scorecard, which ranks

D13A13 – Maryland Energy Administration

each state on a variety of measures reflecting state progress and investment in energy efficiency. Since the 2009 scorecard, there have been six main categories (utility and public benefits programs and policies, transportation, building energy codes, combined heat and power, state government initiatives, and appliance efficiency standards). The methodology and calculation of points (and points available for categories) are often slightly changed each year to reflect changes in the field. As a result, some changes in scores and rankings may reflect changes in calculation rather than improvements or declines in performance.

This scorecard is based on policies and actions in the State as a whole, and not all would or could be attributed solely to MEA. As shown in **Exhibit 2**, since the 2011 scorecard, Maryland has been ranked in the top 10 states in the scorecard. In the 2015 scorecard, Maryland was ranked seventh. In this scorecard, Maryland improved its score by 5.0 points and its rank by two states and was one of the most improved states. In the 2015 scorecard, Maryland's strongest category was in the area of combined heat and power (CHP), where the State achieved all 4.0 of the available points (one of three states to achieve all of the available CHP points). CHP systems use the waste heat from electricity generation for other purposes, such as space heating. According to ACEEE, Maryland had six new CHP installations in 2014. Maryland also scored highly in the building energy codes category and received 6.5 out of the 7.0 available points. This category measures both code stringency and code compliance. ACEEE noted that Maryland's codes reference the most recent code standards and that the State has implemented code compliance activities. Maryland's lowest performing category was in appliance standards in which the State achieved only 0.5 of the 2.0 available points. ACEEE noted that only 2 of the 17 standards created by Maryland have not been preempted by federal standards.

Exhibit 2
Maryland Rankings
Calendar 2009-2015

<u>Year</u>	<u>ACEEE points</u>	<u>ACEEE ranking</u>
2009	24.0	11 *
2010	24.0	16 *
2011	30.5	10
2012	30.0	9 *
2013	27.5	9
2014	30.0	9
2015	35.0	7

*Tied with at least one other state.

ACEEE: American Council for an Energy-Efficient Economy

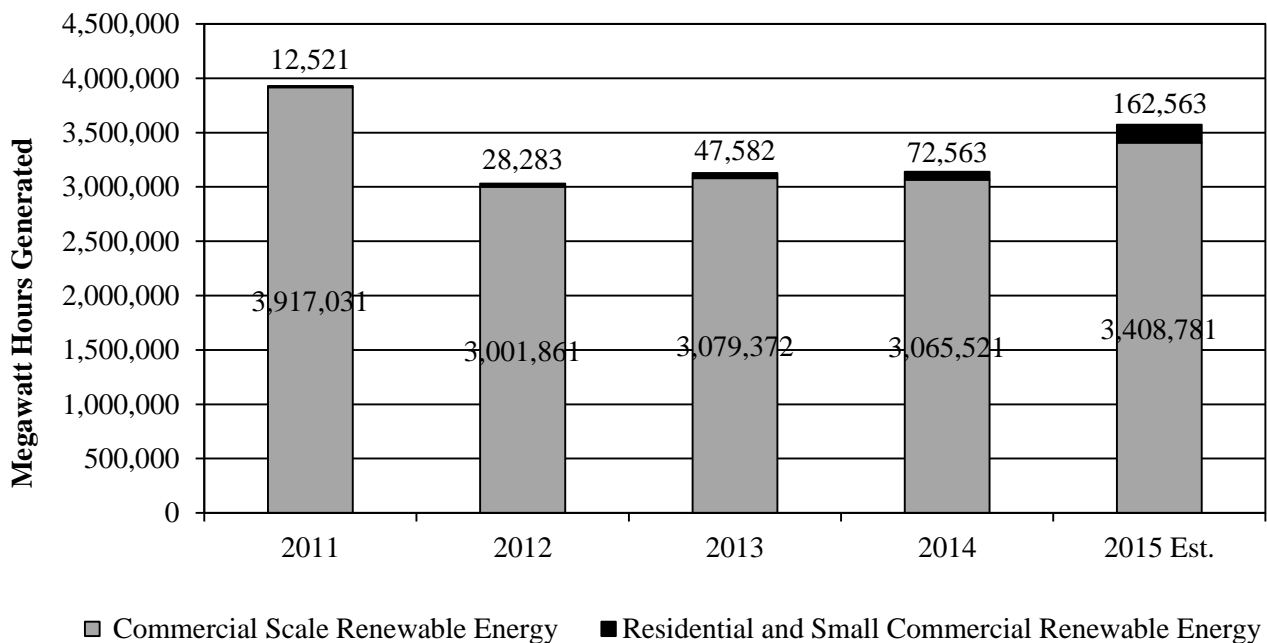
Note: The maximum number of points is 50 (higher points is better). Lower rank is better.

Source: American Council for an Energy-Efficiency Economy

3. Renewable Energy Generated

MEA has a goal of increasing electricity generation fuel diversity through increased use of in-state renewable energy. As shown in **Exhibit 3**, in calendar 2015, approximately 3.57 million megawatt hours of renewable energy were estimated to have been generated in-state, approximately 3.4 million of which was commercial scale. After a decrease of 23.4% between calendar 2011 and 2012, commercial scale renewable energy generated in-state was relatively stable between calendar 2012 and 2014 but was estimated to have increased by 11.2% in calendar 2015 (or 343,260 megawatt hours). Even with this recent jump, commercial scale renewable energy generated in-state in calendar 2015 was 13.0% (508,250 megawatt hours) lower than in calendar 2011. **MEA should explain the reason for the calendar 2012 decrease.** Although a much smaller portion of renewable energy generated in-state, residential and small commercial scale renewable energy generated in-state has grown by more than 50.0% in each year since calendar 2011. Between calendar 2011 and 2015, the megawatt hours of residential and small commercial scale renewable energy generated in-state increased from 12,521 to an estimated 162,563. **MEA should comment on the reason for the faster rate of residential and small commercial scale renewable energy generated in-state.**

Exhibit 3
Renewable Energy Generated
Calendar 2011-2015 Est.



Source: Maryland Energy Administration; Department of Budget and Management; Governor’s Budget Books

Proposed Budget

As shown in **Exhibit 4**, the fiscal 2017 allowance for MEA increases by \$15.6 million, or 33.5%, compared to the fiscal 2016 working appropriation after accounting for the back of the bill reduction in health insurance.

Exhibit 4
Proposed Budget
Maryland Energy Administration
(\$ in Thousands)

How Much It Grows:	<u>Special</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
Fiscal 2015 Actual	\$46,154	\$1,248	\$203	\$47,606
Fiscal 2016 Working Appropriation	45,173	1,103	134	46,410
Fiscal 2017 Allowance	<u>55,911</u>	<u>5,921</u>	<u>134</u>	<u>61,966</u>
Fiscal 2016-2017 Amount Change	\$10,738	\$4,818	-\$1	\$15,556
Fiscal 2016-2017 Percent Change	23.8%	437.0%	-0.5%	33.5%

Where It Goes:

Personnel Expenses

Employee retirement.....	\$64
Employee and retiree health insurance	27
Regular earnings due to budgeting vacant positions at lower salaries.....	-22
Abolition of 2 vacant positions due to efficiencies achieved by co-location with the Maryland Department of the Environment	-156
Other fringe benefit adjustments.....	10

Activities Due to New Fund Source

Required contribution by Exelon Corporation related to animal waste-to-energy condition in merger with Constellation Energy Group	11,000
State agency energy efficiency program from federal ARRA funds available from fund swap with State Agency Loan Program.....	5,000
Offset of grid reliability surcharge by certain utilities from funds available from a condition for approval of CPCN for Dominion Cove Point.....	3,000

Fund Sources that End in Fiscal 2016

Two federal grants for State agency energy efficiency activities and Energy Performance Contract technical assistance	-113
Electric vehicle fast charging stations from a settlement with American Electric Power.....	-275
Customer Investment Fund programs for industrial energy efficiency and net zero schools.....	-3,280

Where It Goes:

Changes in Agency Priorities and Available Funding

Commercial wood energy grant program transitioned from pilot	1,000
Offshore wind development fund	839
Data center energy efficiency program pilot.....	500
Grid resiliency microgrid grant program	275
Energy education and building code activity including a reduction in the federal grant in final year of funding.....	-156
EmPOWER Clean Energy Communities Grant Program for Low- and Moderate-Income Communities	-300
Commercial and industrial energy efficiency grant program	-400
Pilot programs for regulated sustainable energy contracts and wood energy feasibility that have been completed	-400
Offshore Wind Business Development Fund primarily due to end of required funding transfers in Chapter 3 of 2013.....	-900

Administrative Expenses

Evaluation, measurement, and verification activities	171
Contractual employee health insurance due to Affordable Care Act requirements ...	55
Legal support	55
Statewide cost allocation primarily due to increased indirect cost rate	21
Cost allocations for the Retirement Administration, the Office of Attorney General, and the Department of Information Technology	10
Adjustments to contractual employee payroll costs.....	-95
Eliminate 1 contractual full-time equivalent.....	-99
Travel and association dues as part of agency efforts to reduce costs and achieve efficiencies	-235
Other adjustments	-39

Total **\$15,556**

ARRA: American Recovery and Reinvestment Act of 2009

CPCN: Certificate of Public Convenience and Necessity

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

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. The MEA share of these reductions is \$6,832 in total funds (\$5,707 in special funds and \$1,125 in federal funds). There is an additional across-the-board reduction to abolish positions statewide, but the amounts have not been allocated by agency.

Personnel

The fiscal 2017 allowance includes funds for employee increments in the budget of the Department of Budget and Management. These funds will be distributed to agencies early in the fiscal year. The MEA share of the employee increments is \$55,980 in special funds.

The fiscal 2017 allowance of MEA abolishes 2 vacant regular positions resulting in a decrease of \$155,571. These positions were abolished in anticipation of efficiencies achieved through co-location with the Maryland Department of Environment (MDE). In addition, the fiscal 2017 allowance eliminates 1 contractual full-time equivalent responsible for a pilot program for commercial building energy efficiency that has been completed, a decrease of \$99,270.

Outside of these changes, the largest increase in personnel costs occurs in employee retirement (\$63,521) and employee and retiree health insurance (\$26,752). Regular earnings decrease by \$22,202 primarily due to the budgeting of vacant positions at lower salaries.

Environmental Trust Fund

Under Section 3-302 of the Natural Resources Article, MEA receives up to \$250,000 per fiscal year from the Environmental Trust Fund (ETF) for administrative and fiscal support for studies related to the conservation and production of electric energy. The fiscal 2016 working appropriation and fiscal 2017 allowance of MEA each include \$250,000 from this fund. DLS has learned that these funds are currently accounted for within the budget of the Department of Natural Resources (DNR). To avoid double counting of State spending, these funds should not be included as special funds in the budgets of both agencies. In addition, legislation proposed by Governor Lawrence J. Hogan, Jr. (SB 389 and HB 459) would, among other changes, eliminate the statutory provision for MEA to receive up to \$250,000 from this fund. (This legislation will be discussed further in Issue 1.) As of this writing, MEA has not identified specific projects for which these funds will be used. In addition, MEA canceled these funds in fiscal 2015. **DLS recommends deleting the ETF that is budgeted in MEA in fiscal 2017.**

Animal Waste to Energy

In February 2012, PSC issued an order approving the merger between Exelon Corporation (Exelon) and Constellation Energy Group (Constellation) with certain conditions. These conditions included several requirements related to new electricity generation within Maryland, particularly in certain areas of the State that have transmission constraints (generally the eastern and central parts of the State). The new generation facilities required in these conditions included natural gas-fired generation and Tier 1 generation (such as solar, wind, and waste to energy). PSC also specifically included requirements related to new animal waste-to-energy generation. The order gave the State several options for the animal waste-to-energy generation condition to be met:

D13A13 – Maryland Energy Administration

- Exelon could pay the State or its designee a subsidy for the output of an animal waste-to-energy facility delivered to the State under a power purchase agreement developed as a result of a certain Request for Proposals (RFP) known as the Clean Bay Power RFP;
- Exelon could construct an animal waste-to-energy plant if legislation is enacted by July 1, 2016, to provide a carve-out for this type of energy facility from the Renewable Portfolio Standard; or
- if, by December 31, 2016, the State had chosen neither option for the building of a new animal waste-to-energy facility, Exelon would pay the State liquidated damages totaling \$44 million (unless the deadline is extended by consent of the two parties).

One of the provisions for liquidated damages expressed the intent that the liquidated damages be used to support the creation of new Tier 1 renewable energy sources in Maryland. The liquidated damages are to be paid into the SEIF and treated in the manner of Alternative Compliance Payments made under the Renewable Portfolio Standard (*i.e.*, used for renewable energy).

The fiscal 2017 allowance assumes that the State will not have chosen one of the two options for construction of an animal waste-to-energy generation facility by December 31, 2016, and that liquidated damages totaling \$44 million will be paid to the State in fiscal 2017. The fiscal 2017 allowance includes a portion of the funds from the liquidated damages, \$11 million, in the budget of MEA. The funding will be invested in animal waste-to-energy activities and is expected to work in conjunction with the Maryland Department of Agriculture (MDA) Animal Waste Technology Fund, which focuses on the reduction of nutrients flowing into the Chesapeake Bay as part of Governor Hogan's Phosphorous Management Initiative.

Customer Investment Fund

Another condition placed on the approval of the merger of Exelon and Constellation by PSC required Exelon to contribute a total of \$113.5 million into a Customer Investment Fund (CIF) in three equal annual installments. After an RFP process, in November 2012, PSC issued an order allocating the entire CIF with certain levels provided to various organizations and State agencies. MEA received funding for three programs (Small Business Energy Advance, Net Zero Schools, and Next Generation Energy Efficiency Gains for the Industrial Sector).

PSC staff, with the entities receiving funding, developed plans for the distribution of the total amount of funds allocated to the entity over the anticipated length of the funding. Under the initial schedule, the distributions for all programs would have been completed in fiscal 2016. However, some programs would have finished earlier. The fiscal 2016 budget includes funds for only two of the three MEA programs (totaling \$3.3 million), because under the distribution schedules, no funds were required for the Small Business Energy Advance program in that year. The fiscal 2017 allowance of MEA accounts for the end of the CIF by removing funding for the remaining two CIF programs budgeted in MEA in fiscal 2016.

Dominion Cove Point

In April 2013, Dominion Cove Point LNG, LP (DCP) filed an application with PSC for a Certificate of Public Convenience and Necessity (CPCN) to construct a 130-megawatt nameplate capacity electric generating station at the existing liquefied natural gas (LNG) terminal site in Calvert County near Cove Point. The terminal currently receives LNG imports, but DCP was seeking approval from the Federal Energy Regulatory Commission (FERC) to expand the facility to allow for exporting of LNG. The electric generating station facility would serve the needs of the facility and would not be connected to the State electric grid.

On May 30, 2014, PSC granted (in Order 86372) the CPCN for the new electric generating station to DCP subject to a number of conditions including that FERC approve the export facility and that all FERC conditions for the expansion of the facility be met. Two of the conditions would impact the State budget. One condition requires a contribution of \$400,000 per year during the anticipated 20-year operation of the facility (a total of \$8 million) to be used for the Maryland Energy Assistance Program or another Maryland low-income energy assistance program specified by PSC. The other is a condition that requires a contribution of \$8 million annually for five years (a total of \$40 million) from DCP to the SEIF beginning within 90 days of the commencement of construction of the facility. The contribution was required to be used solely for:

- renewable and clean energy resources;
- greenhouse gas reduction or mitigation programs;
- cost-effective energy efficiency and conservation programs, projects, or activities; or
- demand response programs that are designed to promote changes in electric usage by customers.

The SEIF began receiving contributions from DCP related to this condition in calendar 2015. Due to the unknown timing of the receipt of the first payment, no funds from this condition were included in the fiscal 2016 budget. The fiscal 2017 allowance accounts for the full \$24.0 million expected to be contributed to the SEIF from DCP for the first three payments required under the condition. The remaining two payments would be contributed during fiscal 2018 and 2019, respectively. The funding from the DCP contribution included in the fiscal 2017 allowance is used for:

- a new MDE PAYGO program for wastewater treatment plant upgrades that meet the criteria established by PSC including energy efficiency and the installation of combined heat and power or renewable energy technologies (\$16.4 million);
- a Department of Housing and Community Development (DHCD) multifamily energy efficiency program (\$4.6 million) that traditionally receives funds from the EmPOWER Maryland surcharge; and

- a new MEA program to offset the surcharges imposed by Baltimore Gas and Electric (BGE), Delmarva Power and Light (DPL), and the Potomac Electric Power Company (Pepco) for electric reliability and grid resiliency initiatives (\$3.0 million) in the budget of MEA. **MEA should discuss how the grid reliability surcharge offset will be administered.**

The surcharges vary by utility and between rate classes within an individual utility. As an example, the current surcharges for residential customers are \$0.18 per 1,000 kilowatt hours for BGE, \$0.14 per 1,000 kWh for Pepco, and \$0.09 per 1,000 kWh for DPL.

Federal American Recovery and Reinvestment Act Funding

A portion of the funding that MEA received from the American Recovery and Reinvestment Act of 2009 (ARRA) was used for additional capitalization in the State Agency Loan Program (SALP) (approximately \$7.0 million). The SALP is one of two PAYGO programs in MEA and is used for State agency energy efficiency projects, often in combination with energy performance contracts. ARRA funds carry a number of requirements including wage requirements, environmental reviews, historic reviews, and buy America requirements that made the funds difficult to lend. These requirements, under ARRA rules, continue to follow the funds as the loans are repaid and recycled into new loans.

MEA has developed a plan to refund a portion of the ARRA capitalization of the SALP with the SEIF (\$5.0 million). The ARRA funds that are available due to the fund swap are budgeted within the fiscal 2017 allowance of MEA to be used for State agency energy efficiency projects.

Offshore Wind Activities

Maryland Offshore Wind Business Development Fund

Chapter 3 of 2013 (the Maryland Offshore Wind Energy Act) created the Maryland Offshore Wind Business Development Fund (MOWBDF) to provide financial assistance, business development, and employee training opportunities to prepare and encourage emerging businesses (including minority-owned emerging businesses) to participate in the offshore wind industry. An emerging business is defined as a business that is at least 51% owned and controlled by an individual or individuals who are certified to have a personal net worth that does not exceed \$6.5 million (adjusted each year for inflation). The chapter also required transfers to the MOWBDF of \$1.5 million in fiscal 2014 and 2015 and \$1.0 million in fiscal 2016 from the Offshore Wind Development Fund, created from a condition required in the approval of the merger between Exelon and Constellation, and held in the SEIF. An additional \$6.0 million (over a three-year period) would be available to the MOWBDF if an offshore wind renewable energy credit application is approved. Chapter 3 requires the first of three \$2.0 million contributions 60 days after PSC approval of an offshore wind application. An application has recently been received but is still being reviewed for administrative completeness as of this writing. Based on the timing of the application process, a decision on the application is not expected until calendar 2017. As a result, these additional funds are not likely to be received into the MOWBDF until the latter half of fiscal 2017, at the earliest.

D13A13 – Maryland Energy Administration

The fiscal 2016 budget includes the required transfer from the Offshore Wind Development Fund, as well as \$350,000 from balance in the MOWBDF. The fiscal 2017 allowance reduces spending related to the MOWBDF by \$900,000, to \$450,000, largely because no new transfers are required to capitalize the fund from the SEIF and no transfer from the required contribution is anticipated. The fiscal 2017 funds are expected to be used for assistance grants to support market entry.

Offshore Wind Development Fund

The fiscal 2017 allowance increases funding from the Offshore Wind Development Fund by \$839,437, excluding funds for administrative expenses. In fiscal 2016, \$1.3 million is available for programmatic activities, primarily for a meteorological tower to measure and record wind and wave data. The fiscal 2017 allowance includes \$2.1 million for programmatic activities, which is expected to be used in a number of market-related activities including (1) determining industry needs; (2) evaluating offshore wind supply and market demands; and (3) examining the cost at which deployment of offshore wind is feasible. The funds are also expected to be used to determine the impact of a project on the electric grid.

Issues

1. Regional Greenhouse Gas Initiative Revenue and Allocation

Chapters 127 and 128 of 2008 established the SEIF primarily to receive revenue from RGGI carbon dioxide emission allowance auctions. The chapters also established an allocation of the revenue from the quarterly RGGI carbon dioxide emission allowance auctions to be distributed among various categories of spending. Other revenue in the SEIF available from different fund sources (such as Alternative Compliance Payments from the Renewable Portfolio Standard including the animal waste-to-energy payment, the Offshore Wind Development Fund, the CIF, and Cove Point funds) is not subject to the allocation. Outside of the Alternative Compliance Payments, the inclusion of these funds in the SEIF were not required by statute, and most are one-time or limited-time funds.

In February 2013, RGGI, Inc. announced changes to the program, including a reduction (45.0%) of the carbon dioxide emission allowance cap beginning in calendar 2014 and adjustments for banked allowances from before the cap change (which occur over a number of years). The allowance cap is further tightened over time with a reduction of 2.5% per year, as originally envisioned. The program changes also provided for a cost containment reserve, under which, if the clearing price of the auction reaches a set price (\$4.00 in calendar 2014, \$6.00 in calendar 2015, \$8.00 in calendar 2016, and \$10.00 in calendar 2017, and increasing by 2.5% in each subsequent year), a certain number of allowances are made available (5 million in calendar 2014 and 10 million in each subsequent year). After the cost containment reserve allowances are distributed during the year, there is no more cost containment reserve available until the next year. The cost containment reserve was used in the March 2014 and September 2015 auctions.

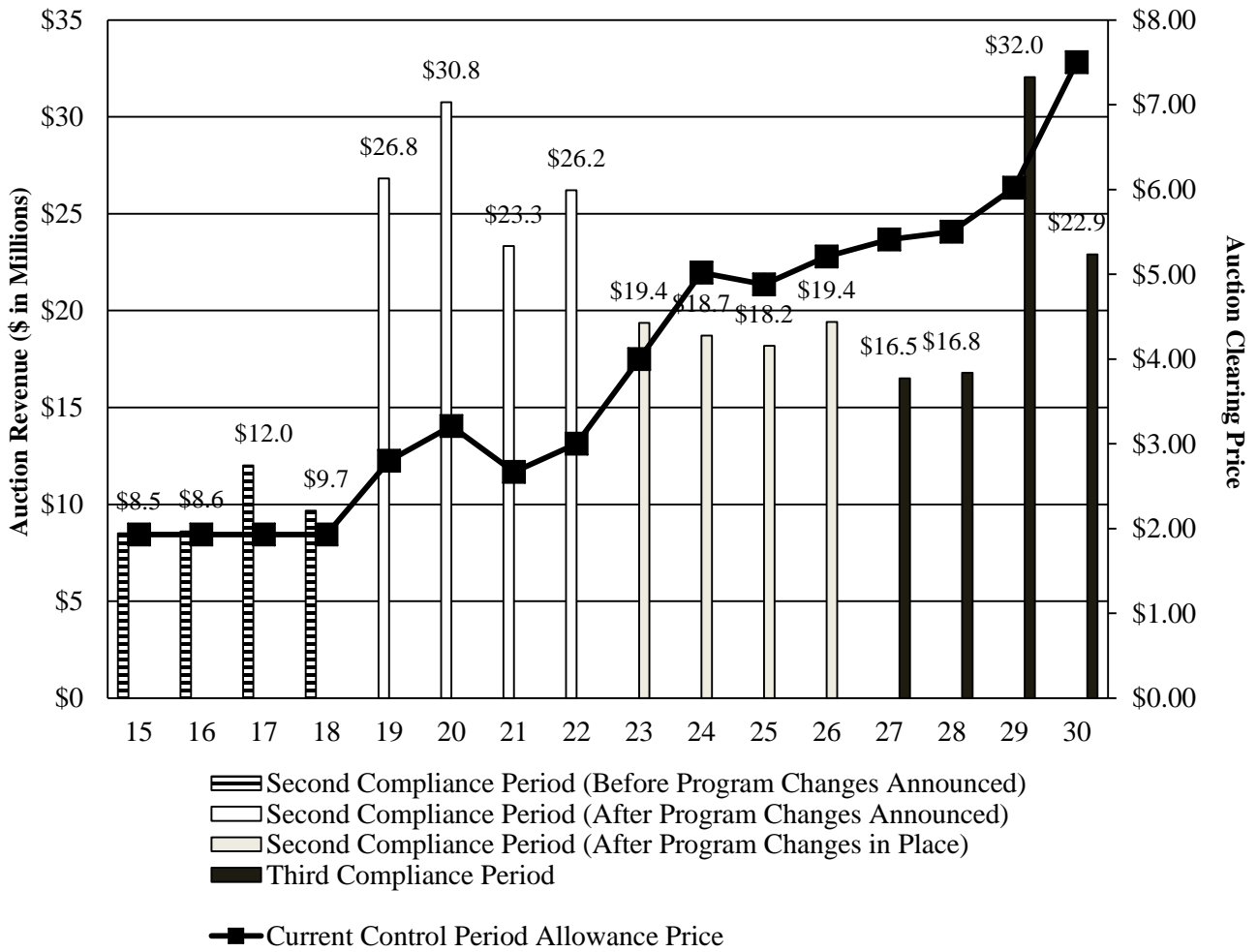
RGGI, Inc. is in the beginning stages of a second round of program review (the 2016 program review). RGGI, Inc. has held two stakeholder meetings (November 17, 2015, and February 2, 2016). The review will include a discussion of changes that may be needed as a result of the Clean Power Plan and a variety of other topics such as the cost containment reserve, control periods, regulated sources, and broadening the RGGI program. Under the planned timeline for the program review, two additional stakeholder meetings will be held in spring and summer 2016.

RGGI Revenue

As shown in **Exhibit 5**, the announcement of the February 2013 program changes had an immediate impact on the auction revenue in calendar 2013 in both the auction clearing price and the number of allowances that sold, despite the change in the cap not taking effect until calendar 2014. In the first auction following the announcement (Auction 19, March 2013), the clearing price rose from the minimum reserve price, where it had been since Auction 9 (September 2010). In addition, all of the allowances offered for sale sold, which had last occurred in Auction 11 (March 2011). In the first auction after the program changes went into effect (Auction 23, March 2014), the clearing price reached the cost containment reserve trigger, and all of the reserve allowances were released. The clearing price has increased in each auction since that time, with the exception of Auction 25 (September 2014). In Auction 29 (September 2015) the calendar 2015 cost containment reserve allowances were again

released, allowing for the highest Maryland revenue in program history (\$32.0 million). In Auction 30 (December 2015), the allowance price reached \$7.50, an increase of \$1.48 from the prior auction. Because the number of allowances sold are lower, the September 2015 auction sales aside, the per auction revenue received in years after calendar 2013 is lower despite higher allowance prices.

**Exhibit 5
RGGI Auction Results for Maryland
Auction 15-30**



Note: Auction 15 was held on March 14, 2012, and Auction 30 was held on December 2, 2015.

RGGI: Regional Greenhouse Gas Initiative

Source: Regional Greenhouse Gas Initiative, Inc.

The fiscal 2017 budget assumes that the allowance price will decrease in the remaining two auctions in fiscal 2016 but then increase to near the level of the December 2015 auction in the first half of fiscal 2017. The allowance price is expected to reach \$8.37 in the final two auctions of fiscal 2017. In total, in fiscal 2017, \$92.8 million is expected to be received by the State from RGGI auctions, a decrease of \$2.7 million compared to current fiscal 2016 estimates, primarily because it does not account for the release of cost containment reserve allowances, which boosted revenue in fiscal 2016.

Statutory Allocation Comparison

Exhibit 6 provides information on the current allocation of RGGI revenue and compares the allocation to the statutory requirements. The allocation places a cap on the amount of funds that may be received for administration. Excess revenue is redistributed among programs. The fiscal 2017 revenue distribution plan, as shown in Appendix T of the Governor’s Budget Books, continues the practice of providing the redistributed funds to the energy efficiency and renewable energy allocations only. Spending from the programs may be higher or lower than the allocation due to fund balance or funding needs.

Governor Hogan has proposed legislation (SB 389 and HB 459) that would divert up to \$10.0 million annually from RGGI auction proceeds to the ETF to replace the per kilowatt hour surcharge on electricity bills that currently supports the fund. Although not specifically stated, the annual diversion is expected to be of the amount needed to meet the needs of ETF programs. The ETF is primarily used in DNR to fund the Power Plant Research Program. The fiscal 2017 allowance includes \$9.45 million from the ETF in DNR, which includes funds that DNR transfers to MEA.¹

This diversion reduces the revenue available for the RGGI statutory allocation, similar to how other transfers from the SEIF were implemented (such as to the Transportation Trust Fund related to the Electric Vehicle tax credit). Exhibit 6 compares the amount of revenue available to each allocation under the current statute to that if the proposed legislation were to be enacted. As shown, the diversion reduces the funding available to all allocations proportionate to the share of revenue received, except the administrative allocation.

¹ The fiscal 2017 allowance includes \$9.7 million from the ETF, but \$250,000 of this funding is double counted, included in both the budget of MEA and DNR. The legislation also proposes to remove the statutory authorization for the MEA funding in the ETF, which would reduce the fiscal 2017 allowance to \$9.2 million.

Exhibit 6
Fiscal 2017 Allowance Compared to Required RGGI Distribution
(\$ in Millions)

	<u>Revenue Available without Transfer</u>	<u>Revenue Available with Transfer</u>
Revenue Estimate	\$96,181,852	\$96,181,852
RGGI Dues	-457,438	-457,438
Electric Vehicle Tax Credit	-1,287,000	-1,287,000
Proposed Transfer to Environmental Trust Fund		-10,000,000
Revenue Available for Distribution	\$94,437,414	\$84,437,414

	<u>Fiscal 2017 Allowance</u>	<u>Distribution as Determined by Statute</u>	<u>Fiscal 2017 Revenue Allocation</u>	<u>Fiscal 2017 Revenue Allocation If Proposed Transfer Occurs</u>	<u>Difference between Allocations with and without Proposed Transfer</u>	
Energy Assistance	\$42.0	at least	50%	\$47.2	\$42.2	-\$5.0
Department of Human Resources	\$42.0					
Low- and Moderate-income Energy Efficiency	\$12.3	at least	10%	\$10.6	\$9.3	-\$1.3
Maryland Energy Administration	\$10.3					
Department of Housing and Community Development	2.0					
Energy Efficiency, All Other Sectors	\$9.8	at least	10%	\$10.6	\$9.3	-\$1.3
Maryland Energy Administration	\$5.8					
Department of Health and Mental Hygiene	2.6					
Department of General Services	1.4					

	<u>Fiscal 2017 Allowance</u>	<u>Distribution as Determined by Statute</u>		<u>Fiscal 2017 Revenue Allocation</u>	<u>Fiscal 2017 Revenue Allocation If Proposed Transfer Occurs</u>	<u>Difference between Allocations with and without Proposed Transfer</u>
Renewable Energy, Climate Change, Resiliency, Energy Education	\$21.5	at least	20%	\$21.1	\$18.6	-\$2.5
Maryland Energy Administration	\$17.9					
Maryland Department of the Environment	2.6					
Maryland Department of Agriculture	1.0					
Administration	\$4.9	no more than \$5.0 million, up to	10%	\$5.0	\$5.0	\$0.0
Maryland Energy Administration	\$4.9					
Total	\$90.4			\$94.4	\$84.4	
<i>Excess Administration Revenue Beyond Cap That Is Redistributed</i>				\$4.4	\$3.4	

Note: Excludes funds for RGGI dues from the allocation provided to MDE. Excludes non-RGGI funds budgeted as the Strategic Energy Investment Funds. Funds are adjusted to reflect levels included in the fiscal 2017 allowance for the Maryland Energy Administration (administrative expenses) and the Department of Health and Mental Hygiene and to correct errors in revenue calculation and the Department of General Services and will not match figures presented in Appendix T of the Governor’s Budget Books.

Source: Section 9-20B-05(g) of the State Government Article; Governor’s Budget Books; Department of Legislative Services



Fiscal 2017 Allowance Comparison

Exhibit 7 compares the fiscal 2017 allowance with the fiscal 2016 working appropriation from the SEIF. This comparison excludes contributions required by PSC as a result of the Exelon and Constellation merger (Offshore Wind Development Fund, the CIF, and animal waste-to-energy liquidated damages) and DCP payments budgeted as the SEIF. In total, the fiscal 2017 allowance includes \$90.4 million of spending from the SEIF, an increase of \$8.8 million compared to the fiscal 2016 working appropriation. The largest share of the fiscal 2017 allowance from the SEIF is for energy assistance (\$42.0 million), which increases by \$7.2 million compared to the fiscal 2016 working appropriation.

Exhibit 7 Fiscal 2017 Allowance Compared to Fiscal 2016 Working Appropriation SEIF from RGGI Sources

	Working Appropriation <u>2016</u>	Allowance <u>2017</u>	<u>Change</u>
Energy Assistance	\$34,793,885	\$42,000,000	\$7,206,115
Department of Human Resources	\$34,793,885	\$42,000,000	\$7,206,115
Low- and Moderate-income Energy Efficiency	\$11,605,000	\$12,305,000	\$700,000
Maryland Energy Administration	\$10,605,000	\$10,305,000	-\$300,000
Department of Housing and Community Development	1,000,000	2,000,000	1,000,000
Energy Efficiency, All Other Sectors	\$10,325,728	\$9,799,842	-\$525,886
Maryland Energy Administration	\$5,750,000	\$5,750,000	0
Department of Health and Mental Hygiene	3,234,605	2,613,763	-620,842
Department of General Services	1,341,123	1,436,079	94,956
Renewable Energy, Climate Change	\$20,093,521	\$21,461,437	\$1,367,916
Maryland Energy Administration	\$17,300,000	\$17,900,000	\$600,000
Maryland Department of the Environment	2,793,521	2,561,437	-232,084
Maryland Department of Agriculture	0	1,000,000	1,000,000
Administration	\$4,801,494	\$4,881,026	\$79,532
Maryland Energy Administration	\$4,801,494	\$4,881,026	\$79,532
Total	\$81,619,628	\$90,447,305	\$8,827,677

D13A13 – Maryland Energy Administration

RGGI: Regional Greenhouse Gas Initiative
SEIF: Strategic Energy Investment Fund

Note: The funding for the Maryland Department of the Environment excludes funds from RGGI dues, which are budgeted in that agency but are separate from the statutory allocation. The fiscal 2017 allowance for the Department of General Services accounts for an error and will not match the Governor's Budget Books. The fiscal 2016 and 2017 figures for the Department of Health and Mental Hygiene and the Maryland Energy Administration (administrative expenses) have been adjusted to reflect the appropriated levels; these figures will not match Appendix T of the Governor's Budget Books.

Source: Governor's Budget Books; Department of Legislative Services

The fiscal 2016 working appropriation does not account for all planned spending in that year. The current spending plan, as shown in Appendix T of the Governor's Budget Books would increase fiscal 2016 expenditures by \$2.6 million (\$1.5 million for DHCD for a Net Zero Homes Program, \$1.0 million for MDA animal waste technology activities, and an additional \$0.13 million for the Department of General Services). If that additional spending is accounted for, SEIF spending in the fiscal 2017 allowance increases by \$6.2 million rather than \$8.8 million compared to fiscal 2016.

Fund Balance

The increase in revenue from the RGGI program changes was not anticipated in the fiscal 2013 or 2014 budgets and, as a result, the higher than anticipated revenue in fiscal 2013 was unused and added to the SEIF balance. A portion of the fund balance has been used to supplement current year revenues for a variety of programs. However, the fund balance has continued to grow in some programs largely because revenue continues to outpace estimates through the first two auctions in fiscal 2016.

The Budget Reconciliation and Financing Act of 2015 authorized a transfer of \$6.0 million from the SEIF to the General Fund. Language added to this fiscal 2015 authorization restricted the transfer to a combination of the energy and conservation program accounts, renewable and clean energy programs account, and administrative expense account. The transfer primarily occurred from the renewable and clean energy programs account (\$5.94 million). The remainder of the transfer (\$61,848) came from the remaining rate relief balance. The rate relief allocation has not existed since the end of fiscal 2011, and the remaining balance was unlikely to be used.

Exhibit 8 shows the fiscal 2015 closing SEIF balance after the transfer to the General Fund, along with estimated fiscal 2016 and 2017 closing balances based on the current spending plans. For informational purposes, Exhibit 8 also shows the impact on the fund balance if a \$10.0 million diversion to the ETF were to occur in that year. Because the diversion is likely to occur only to the level needed to fund ETF activities, and the fiscal 2017 allowance of these funds is \$9.45 million, the full transfer is unlikely.

As shown in Exhibit 8, the closing fiscal 2015 SEIF balance was \$63.9 million for RGGI activities. The majority of this balance (\$45.1 million) occurs in the energy assistance program; discussion of this balance is included in the Office of Home Energy Programs budget analysis. The balances would continue to grow in some areas and decline in others based on the current spending

plans through fiscal 2017, with an estimated closing balance in that year of \$73.2 million. If the full diversion to the ETF were to occur, with the exception of general energy efficiency programs, spending could be maintained in fiscal 2017 through the use of fund balance.

Exhibit 8
Strategic Energy Investment Fund Balance
Fiscal 2015-2017 Est.
(\$ in Millions)

	<u>2015 Actual</u>	<u>2016 Estimated</u>	<u>2017 Estimated</u>	<u>2017 Estimated Balance (with ETF Transfer)</u>
Energy Assistance	\$45.1	\$57.5	\$62.8	\$57.8
Energy Efficiency and Conservation Programs, Low- and Moderate-income Sector	4.8	3.7	2.0	0.7
Energy Efficiency and Conservation Programs, All Other Sectors	5.3	5.4	1.1	-0.1
Renewable Energy, Clean Energy, Climate Change, Education, and Resiliency	4.9	3.4	3.1	0.6
Administration	3.9	4.1	4.3	4.3
Subtotal RGGI Portion	\$63.9	\$74.2	\$73.2	\$63.2
Renewable Portfolio Standard	0.0	0.0	33.0	\$33.0
Offshore Wind Development	15.3	13.8	11.6	11.6
Cove Point	8.0	16.0	0.0	0.0
Total	\$87.2	\$104.0	\$117.8	\$107.8

Note: Does not include Customer Investment Funds in fiscal 2016 and 2017, which are budgeted as the Strategic Energy Investment Fund (SEIF). Estimated revenue in fiscal 2016 and 2017 include actual auction results in September and December 2015 and projected results for six auctions. Numbers may not match the SEIF Appendix T in the Governor’s Budget Books to better reflect appropriations of the Maryland Energy Administration (administrative expenses) and the Department of Health and Mental Hygiene and account for an error in the Department of General Services (DGS) and revenue estimate calculation. The fiscal 2016 balances assume certain program spending not yet appropriated in DGS, the Department of Housing and Community Development, and the Maryland Department of Agriculture. The fiscal 2017 balance accounts for a transfer of funds to the State Agency Loan Program.

Source: Maryland Energy Administration; Governor’s Budget Books; Department of Legislative Services

2. EmPOWER Maryland

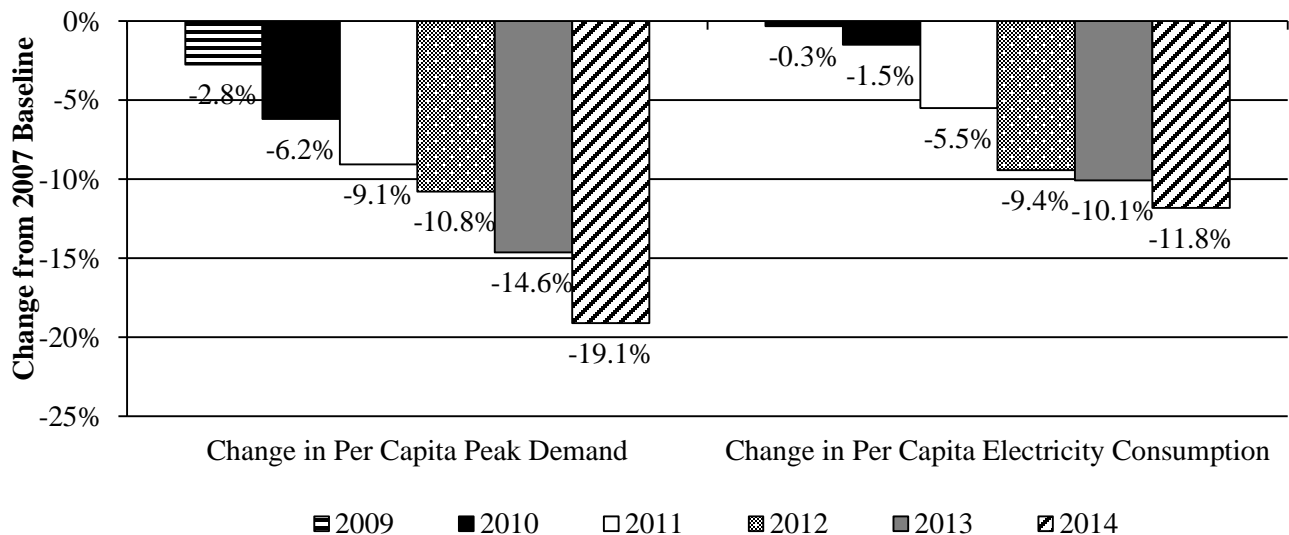
Chapter 131 of 2008 (the EmPOWER Maryland Energy Efficiency Act), known as EmPOWER Maryland, established goals of a 15% per capita reduction in peak demand (highest electricity use) and a 15% per capita reduction in energy consumption by 2015.

2015 Goal Progress

Annually, the MFR submission of MEA contains measures of the State’s progress in meeting these goals. These measures reflect activity in the State as a whole, not only changes relating to programs of MEA, and reflect the cumulative progress over time in meeting these goals. Due to the timing of the release of energy consumption data, final calendar 2015 data is not available.

As shown in **Exhibit 9**, Maryland exceeded the goal of reducing per capita peak demand a year in advance, with a cumulative reduction of 19.1% in calendar 2014. Per capita peak demand was reduced by 4.5 percentage points compared to calendar 2013, which was in addition to a reduction of 3.9 percentage points in calendar 2013 compared to calendar 2012. These improvements have been achieved by, among other activities, programs that reward consumers with a credit per kilowatt hour of energy saved on peak energy days.

Exhibit 9
EmPOWER Maryland Goal Progress
Calendar 2009-2014



Source: Maryland Energy Administration; Department of Budget and Management; Governor’s Budget Books

After limited progress toward meeting the per capita electricity consumption reduction goal in calendar 2013, the State made larger progress toward the goal in calendar 2014. Through calendar 2014, the State had reduced the per capita electricity consumption by a cumulative 11.8%, a reduction of 1.74 percentage points compared to calendar 2013. At this pace, the State would be expected to fall short of meeting the goal of a 15.0% reduction. **MEA should comment on whether it anticipates the State met the 2015 goal.**

Post-2015 Goal Planning

Chapter 131 required MEA, in consultation with PSC, to submit two reports in December 2012, on topics including whether targets should be set beyond calendar 2015. Among other recommendations, MEA recommended continuing to set energy efficiency and peak demand reduction goals.

Beginning in calendar 2013, MEA and PSC undertook activities to move toward the post-2015 phase of EmPOWER Maryland. During this time, MEA conducted several workgroups and study activities to assist in setting the new goals. In August 2014, MEA submitted the final products of some of the study and workgroup activities including an avoided cost study and cost effectiveness framework to PSC. In September 2014, MEA submitted to PSC a series of policy and program recommendations. The policy recommendations included expanding EmPOWER Maryland to natural gas customers and instituting performance-based shareholder incentives for meeting or exceeding the goals.

PSC approves EmPOWER Maryland program plans from utilities on a three-year cycle. In calendar 2014, PSC approved the next set of three-year plans (2015 through 2017) for BGE, DPL, Pepco, the Potomac Edison Company (PE), and Southern Maryland Electric Cooperative, Inc. (SMECO). Initially, DHCD was only authorized to continue as the administrator of the limited income EmPOWER Maryland programs through calendar 2015, but that has since been extended for the full three-year cycle. The timing of the three-year cycle meant that the programs were developed for only one year with a set goal. It was expected that some modifications may be necessary to accommodate post-2015 goals. PSC also approved Washington Gas Light Company (WGL) energy efficiency program proposals.

Post-2015 EmPOWER Goals

On July 16, 2015, PSC issued an order in the EmPOWER Maryland cases for BGE, DPL, Pepco, PE, SMECO, and WGL that established goals for the post-2015 EmPOWER period, as well as established a new test for cost effectiveness and identified other plans for the future of EmPOWER Maryland.

Energy Savings Goal

PSC stated in the order, “Until such time that energy efficiency is no longer a least-cost resource, or until such time that the costs of investing in energy efficiency outweigh the projected benefits, we see value in establishing energy savings goals for the Utilities on a prospective basis” (Order No. 87082, p. 19). PSC set the goal for each electric utility at energy savings of 2.0% of the

D13A13 – Maryland Energy Administration

utility's weather normalized gross retail sales baseline. The goal is to be met by ramping up the energy savings by 0.2% per year starting with 2016 approved plans, until the utility achieves the target. The 0.2% ramp up does not assume that a utility has already achieved a certain level of savings (*i.e.*, it meets the utility where it is and starts the progress toward the goal from that place). The ramp up also recognizes the achievement of certain utilities, by requiring only the incremental progress needed to meet the 2.0% target. This methodology avoids some of the concerns that arose under the previous goal (related to the impacts of the weather, economy, and population calculations). **MEA should comment on whether it plans to track and report on performance for the revised energy efficiency goals.**

PSC declined in the order to establish a post-2015 goal related to demand reduction, but indicated that it may reevaluate in the future. PSC intends to set goals for natural gas savings and the limited-income program; however, it was not prepared to set these goals at the time of the order. PSC requested staff convene workgroups to discuss these issues. PSC staff submitted reports on the progress of the workgroups in February 2016, but there was not a clear consensus on goals for these areas.

Recommended Actions

1. Add the following language to the special fund appropriation:

, provided that \$100,000 of this appropriation made for the purpose of General Administration may not be expended until the Maryland Energy Administration submits program-specific performance measures in the fiscal 2018 Managing for Results submission. The budget committees shall have 45 days to review and comment. Funds restricted pending the receipt of the program-specific performance measures may not be transferred by budget amendment or otherwise to any other purpose and shall be canceled if the measures are not included in the Managing for Result submission.

Explanation: Committee narrative in the 2015 *Joint Chairmen’s Report* requested that the Maryland Energy Administration (MEA) begin including program-specific performance measures in its fiscal 2017 Managing for Results submission. MEA did not include these measures in the fiscal 2017 Managing for Results submission. This language restricts funds in the agency until these measures are submitted in the fiscal 2018 submission.

Information Request	Author	Due Date
Program-specific performance measures	MEA	With the fiscal 2018 Managing for Results submission

	<u>Amount Reduction</u>
2. Increase turnover expectancy to 15.0% to better reflect recent experience. The fiscal 2017 allowance of the Maryland Energy Administration (MEA) includes a turnover expectancy of 5.0%. As of January 1, 2016, the MEA vacancy rate was 46.9%, or 15.0 positions. After accounting for 2.0 positions abolished in the fiscal 2017 allowance, the MEA vacancy rate would be 43.3%. A turnover expectancy of 15.0% would require 4.5 positions to be vacant.	\$ 315,146 SF
3. Delete funds from the Environmental Trust Fund (ETF). Under Section 3-302 of the Natural Resources Article, the Maryland Energy Administration (MEA) receives funds from the ETF up to \$250,000 per year. The fiscal 2017 allowance includes these funds both in the budget of MEA and the Department of Natural Resources. These funds should not be budgeted as	250,000 SF

special funds in both agencies. In addition, legislation proposed by Governor Lawrence J. Hogan, Jr. (SB 389 and HB 459) removes the statutory authorization for MEA to receive these funds.

4. Add the following section:

SECTION XX. AND BE IT FURTHER ENACTED, That the Department of Budget and Management shall provide an annual report on the revenue from the Regional Greenhouse Gas Initiative (RGGI) carbon dioxide emission allowance auctions and set-aside allowance to the General Assembly in conjunction with the submission of the fiscal 2018 budget and annually thereafter as an appendix to the Governor’s budget books. This report shall include information for the actual fiscal 2016 budget, fiscal 2017 working appropriation, and fiscal 2018 allowance. The report shall detail revenue assumptions used to calculate the available Strategic Energy Investment Fund (SEIF) from RGGI auctions for each fiscal year including:

- (1) the number of auctions;
- (2) the number of allowances sold;
- (3) the allowance price for both current and future (if offered) control period allowances sold in each auction;
- (4) prior year fund balance from RGGI auction revenue to support the appropriation; and
- (5) anticipated revenue from set-aside allowances.

The report shall also include detail on the amount of the SEIF from RGGI auction revenue available to each agency that receives funding through each required allocation, separately identifying any prior year fund balance for:

- (1) energy assistance;
- (2) energy efficiency and conservation programs, low- and moderate-income sector;
- (3) energy efficiency and conservation programs, all other sectors;
- (4) renewable and clean energy programs and initiatives, education, climate change, and resiliency programs;
- (5) administrative expenditures;
- (6) dues owed to the RGGI, Inc.; and

D13A13 – Maryland Energy Administration

(7) transfers or diversions of revenue made to other funds.

Explanation: This annual language requires the Department of Budget and Management (DBM) to include as an appendix in the Governor’s budget books for fiscal 2018 detail on the revenue assumptions for RGGI auctions budgeted in each fiscal year as well as how those revenues are distributed to various agencies. This information increases transparency, differentiates funding from the SEIF that is available from sources other than RGGI auctions, and allows for analysis of whether the allocation of RGGI auction revenue meets statutory requirements.

Information Request	Author	Due Date
Report on revenue assumptions and use of RGGI auction revenue	DBM	With submission of the Governor’s fiscal 2018 budget books and annually thereafter
Total Special Fund Reductions		\$ 565,146

Updates

1. MEA Move

In December 2015, MEA moved from its location in Annapolis to co-locate with MDE at Montgomery Park in Baltimore. MEA is currently in a temporary location in the building and is expected to move to a permanent location later in calendar 2016.

Costs associated with the move are expected to include a termination payment for the space previously leased by MEA, consisting of certain costs associated with adjusting the space to meet the agency's needs that had not yet been fully paid, and adjusting the new location to meet the agency's needs. As of this writing, neither MEA nor MDE has identified the costs associated with the move.

The move was expected to produce savings from lease costs, in part due to lower rent at Montgomery Park compared to the Annapolis location previously rented by MEA. Specific savings have not yet been identified, and no rent savings are accounted for in the fiscal 2017 allowance of MEA. However, the fiscal 2017 allowance abolishes 2 positions in recognition of anticipated efficiencies from this co-location, a decrease of \$155,571 in personnel spending. DLS will continue to monitor costs and savings associated with the move as the information becomes available.

MEA and MDE also anticipate that because of the co-location, synergies will occur as the agencies work on climate change/greenhouse gas reduction and energy (which plays a key role in greenhouse gas reductions).

2. Green Bank Study

Chapter 365 of 2014 required the Maryland Clean Energy Center (MCEC), in coordination with MEA, to conduct a study of green banks and clean bank financing initiatives. Green banks are defined as, "...a public or quasi-public institution that finances the deployment of renewable energy, energy efficiency, and other clean energy projects in partnership with private lenders" (p. 25). Green banks partner with private investors on projects. Green bank financing initiatives include activities such as credit enhancements (such as loan loss reserves which set aside capital to cover a portion of a lender's loss), warehousing and securitization activities (such as the green bank issuing and holding a loan until it can be sold to private investors), on-bill financing, and property assessed clean energy (known as PACE programs).

Based on the analysis, MCEC, in collaboration with MEA was to make recommendations on (1) the need for a green bank in the State; (2) the scope of such a bank; (3) possible sources of capital; (4) the method of establishment; and (5) any other relevant aspect relating to green banks deemed appropriate. An interim report was due on December 1, 2014, and a final report was due on December 1, 2015.

The interim study was conducted by The Cadmus Group, Catalyst Financial Group, Center for Climate and Energy Solutions, and the National Association of State Energy Officials. The interim report focused on background material and identifying opportunities for a green bank. In the interim report, the various energy programs in the State were identified including both loan and grant programs in DHCD and MEA. The report also identified four existing green banks (Connecticut, Hawaii, New Jersey, and New York) and other programs with green bank type activities. In general, the report identified market barriers and financing gaps including small commercial project funding, low- and moderate-income residential funding, and need for a one stop shop to coordinate financing.

The second phase of the study, resulting in the final report, was conducted by the Coalition for Green Capital on behalf of MCEC. MCEC also involved a steering committee in the study and held three stakeholder meetings.

Current Market and Market Potential

The study estimates a market potential exceeding \$8.0 billion for clean energy investments (\$5.7 billion for renewable energy and \$2.6 billion for energy efficiency) in Maryland. The report explains that in 2014, Maryland spent \$449.0 million on clean energy technology (\$320.0 million in EmPOWER Maryland funds by the utilities and DHCD; \$92.0 million of RGGI funds by MEA, DHCD, DHR, and others; and \$37.0 million from the Electric Universal Service Program surcharge). MCEC explains that \$121.0 million of these funds are specific to low-income households. The report explains that these funds are largely used for grant programs, which require annual funding to continue providing benefits. In addition, the report notes private leveraging of the EmPOWER programs of 31 cents per dollar.

The report explains the benefits of financing, as opposed to grants. Financing allows the deployment of clean energy technology with no upfront costs. By contrast, grant programs often cover only a portion of the cost, which could result in different decision making for the customer. In addition, the initial investment remains with the program because it is repaid with financing programs, making the program less expensive. The report states that private leveraging can be much higher with the financing programs.

Existing Green Banks

The report described the funding mechanisms and products offered by six green banks (Connecticut Green Bank, New York Green Bank, California Lending for Energy and Environments Needs Center, Hawaii Green Infrastructure Authority, Rhode Island Infrastructure Bank, and Montgomery County Green Bank).

Fund Sources

Several green banks (Connecticut, New York, and Rhode Island) received funds from the state share of RGGI proceeds. Several states received ratepayer funds or were otherwise funded with utility surcharges (Connecticut, New York, and Rhode Island). An additional state (Hawaii) is funded with a bond issuance that is backed by ratepayer fees. Some of the ratepayer surcharges used to support green

banks were existing surcharges dedicated toward other purposes that were redirected (at least partially) to this purpose. California's green bank is located within a larger infrastructure bank that had bonding authority. Rhode Island also received some funding available through the ARRA, bonding authority, and the authority to issue Qualified Energy Conservation Bonds. Finally, Montgomery County's green bank is expected to use funds available from the merger of Exelon and Pepco Holdings, Inc. (PHI).

Governing Mechanisms

Some green banks are part of existing state agencies, while others are independent state entities. Two of the four entities that were described as having ratepayer funds are overseen (to some degree) by the state public utility commission. Montgomery County's green bank was only enabled during 2015 and is designed as an independent nonprofit.

Type of Projects

Each of the green banks serves a variety of energy projects that include renewable and energy efficiency. Some of the green banks are focused on specific renewable sources (such as solar in Hawaii). Some of the green banks are also able to support grid and demand projects. The types of products offered vary and include solar lease projects, solar loan projects, a loan loss reserve program for energy efficiency loans, PACE projects (commercial and in one state residential), energy efficiency for municipal markets, and other commercial energy efficiency products. New York has issued an open-ended request for proposals for applicants to submit projects for which private funding was not available and that would result in market transformation.

Recommendations for a Maryland Green Bank

The report recommends the creation of a green bank in Maryland and recommends that MCEC become the green bank. The report indicates that the statute of MCEC is similar to those of other green banks. MCEC also has experience running and coordinating financing projects. For example, the Maryland Home Energy Loan Program (MHELP) is a residential energy efficiency loan program for which MCEC provides a loan loss reserve or interest rate buy-down for loans offered by a private partner. The Maryland Clean Energy Capital Program (MCAP) is one in which MCEC issues debt for a partner's energy efficiency projects in the nonprofit, municipal, university, school, and hospital markets. MCEC is also planning to undertake a commercial PACE program.

The report described a set of programs that could be developed based on the market gaps identified in the earlier report and based on stakeholder comments. These programs included an enhanced version of the MHELP (focusing on loan loss reserves, adding participating lenders, creating better loan terms, expanding technologies, and increasing loan size), a large and medium commercial building sector PACE program, an expanded MCAP under which MCEC would offer loans that would not otherwise be able to be closed under the existing program, a loan fund for small business projects, a whole home program for low- and moderate-income households, a microgrid and energy storage program, a clean energy technology program, and technical assistance.

D13A13 – Maryland Energy Administration

MCEC proposes funding totaling \$40 million and suggests three options for investing the funding (one time up front, up front capital with five years of operating, and three years of capital funding and five years of operating). The study identifies several fund sources:

- the SEIF balance;
- reallocating the SEIF revenue;
- allocating the SEIF contribution required in the order approving the CPCN for DCP;
- reallocating the EmPOWER surcharge;
- creating a new ratepayer surcharge;
- establishing MCEC as the issuer of the Qualified Energy Conservation Bonds;
- general obligation bonds;
- project backed bonds; or
- federal fund resources.

The study notes that if MCEC were to become the green bank, there would be a need to either create a subcommittee of the Board of Directors for oversight on financing/investment decisions or create an external committee. Some statutory changes might be required to alter the composition of the board to ensure the board has sufficient financing expertise. The study anticipates that MCEC would need to increase the number of staff from its current 4 positions to between 8 and 12 positions (including a Chief Financial Officer and a loan portfolio manager).

The fiscal 2017 allowance does not include funds from the SEIF or the contribution from DCP for this purpose.

Current and Prior Year Budgets

Current and Prior Year Budgets Maryland Energy Administration (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2015					
Legislative Appropriation	\$0	\$57,794	\$795	\$145	\$58,734
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	4,282	571	121	4,974
Reversions and Cancellations	0	-15,922	-118	-63	-16,102
Actual Expenditures	\$0	\$46,154	\$1,248	\$203	\$47,606
Fiscal 2016					
Legislative Appropriation	\$0	\$45,130	\$1,051	\$134	\$46,316
Budget Amendments	0	43	51	0	94
Working Appropriation	\$0	\$45,173	\$1,103	\$134	\$46,410

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

Fiscal 2015

In total, the fiscal 2015 expenditures of MEA were \$11.1 million less than the legislative appropriation. The fiscal 2015 special fund expenditures of MEA were \$11.6 lower than the legislative appropriation. Special funds in MEA increased by \$4.3 million by budget amendment. The majority of the increase (\$3.0 million) was for the Commercial and Industrial Sector Deep Energy Retrofit Grant program. Other increases provided funds to support MCEC (\$760,000), outside counsel to assist in the PSC review of the Exelon and PHI merger (\$500,000), and the special fund share of the fiscal 2015 cost-of-living adjustment (COLA) (\$21,613). These increases were more than offset by special fund cancellations totaling \$15.9 million. A portion of this cancellation (\$1.5 million) resulted from language restricting the use of funds in the general energy efficiency program to be transferred for the Net Zero Homes Program in DHCD, which were not transferred and as result of the language were required to be cancelled. Other major cancellations resulted from:

- delays in awarding funding for activities related to the offshore wind program and the MOWBDF (\$5.0 million);
- underutilization of transportation programs, including the electric vehicle recharging equipment rebate program (\$2.0 million), a portion of which (for the fast charger program) are expected to be used in fiscal 2016 instead;
- the timing of grant applications in the commercial and industrial energy efficiency program, and the microgrid/grid resiliency program (\$1.8 million);
- lower than expected expenditures in the Maryland Smart Energy Communities Program (\$895,503);
- lower than expected costs for solar projects including the development of a comprehensive online application portal (\$856,680);
- delays in the Net Zero Schools Program, funded with the CIF (\$720,326);
- siting concerns that delayed community wind projects and other lower than expected expenditures in the Clean Energy Grant Program (\$700,849);
- cancellations of projects selected for awards in the CHP Program (\$536,200);
- lower than anticipated applications for the Game Changers Grant Program (\$500,306);
- the timing of the award for the evaluation, measurement, and verification contract (\$492,639); and

D13A13 – Maryland Energy Administration

- Energy Overcharge Restitution Trust Fund and ETF appropriations that were not spent (\$425,000).

The MEA fiscal 2015 federal fund expenditures were \$453,474 higher than the legislative appropriation. Increases totaling \$571,246 by budget amendment occurred due to:

- a grant for the building codes assistance program to test the relationship of comprehensive building code training to increased energy code compliance (\$266,175);
- a federal grant to provide technical assistance to local public housing authorities related to energy performance contracts (\$204,000);
- the federal clean cities grant (\$50,000);
- a higher than expected award from the State Energy Program (\$45,464); and
- the federal fund share of the fiscal 2015 COLA (\$5,607).

These increases were partially offset by cancellations totaling \$117,772, the majority of which is the result of a grant for energy efficiency projects in small- to medium-sized State buildings that was extended into fiscal 2016.

The MEA fiscal 2015 reimbursable fund expenditures were \$58,299 higher than the legislative appropriation. An increase of \$121,344 occurred by budget amendment for the Idle Reduction Technology Program from MDE. This increase was partially offset by cancellations totaling \$63,045 for the Idle Reduction Technology Program which was only available until December 2014 rather than the full year.

Fiscal 2016

To date, the MEA fiscal 2016 appropriation has increased by \$94,192 (\$51,291 federal funds and \$43,000 special funds). An increase of \$53,000 (\$43,000 in special funds and \$10,000 in federal funds) is due to the restoration of the 2% pay reduction. An increase of \$25,200 in federal funds is available as a result of unspent grant funds for energy audits of State buildings. The remaining increase of \$15,922 in federal funds is available as a result of a higher than anticipated State Energy Program funding.

**Object/Fund Difference Report
Maryland Energy Administration**

<u>Object/Fund</u>	<u>FY 15 Actual</u>	<u>FY 16 Working Appropriation</u>	<u>FY 17 Allowance</u>	<u>FY 16 - FY 17 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	32.00	32.00	30.00	-2.00	-6.3%
02 Contractual	9.60	10.50	9.50	-1.00	-9.5%
Total Positions	41.60	42.50	39.50	-3.00	-7.1%
Objects					
01 Salaries and Wages	\$ 3,338,326	\$ 3,438,697	\$ 3,367,874	-\$ 70,823	-2.1%
02 Technical and Spec. Fees	676,241	737,963	598,682	-139,281	-18.9%
03 Communication	97,729	88,686	90,783	2,097	2.4%
04 Travel	116,502	176,269	46,000	-130,269	-73.9%
07 Motor Vehicles	935	890	530	-360	-40.4%
08 Contractual Services	4,080,547	9,499,737	7,115,374	-2,384,363	-25.1%
09 Supplies and Materials	17,376	24,101	10,500	-13,601	-56.4%
10 Equipment – Replacement	6,027	6,140	3,250	-2,890	-47.1%
11 Equipment – Additional	40,937	8,846	7,500	-1,346	-15.2%
12 Grants, Subsidies, and Contributions	38,008,703	31,919,360	50,312,623	18,393,263	57.6%
13 Fixed Charges	462,959	509,194	419,486	-89,708	-17.6%
14 Land and Structures	760,000	0	0	0	0.0%
Total Objects	\$ 47,606,282	\$ 46,409,883	\$ 61,972,602	\$ 15,562,719	33.5%
Funds					
03 Special Fund	\$ 46,154,451	\$ 45,172,838	\$ 55,916,733	\$ 10,743,895	23.8%
05 Federal Fund	1,248,378	1,102,592	5,922,070	4,819,478	437.1%
09 Reimbursable Fund	203,453	134,453	133,799	-654	-0.5%
Total Funds	\$ 47,606,282	\$ 46,409,883	\$ 61,972,602	\$ 15,562,719	33.5%

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.

**Fiscal Summary
Maryland Energy Administration**

<u>Program/Unit</u>	<u>FY 15 Actual</u>	<u>FY 16 Wrk Approp</u>	<u>FY 17 Allowance</u>	<u>Change</u>	<u>FY 16 - FY 17 % Change</u>
01 General Administration	\$ 6,660,272	\$ 6,549,990	\$ 6,322,327	-\$ 227,663	-3.5%
06 Energy Efficiency and Conservation Programs, Low and Moderate Income Residential Sector	9,982,556	10,692,948	10,305,000	-387,948	-3.6%
07 Energy Efficiency and Conservation Programs, All Other Sectors	9,587,958	9,256,382	10,895,275	1,638,893	17.7%
08 Renewable and Clean Energy Programs and Initiatives	21,375,496	19,910,563	34,450,000	14,539,437	73.0%
Total Expenditures	\$ 47,606,282	\$ 46,409,883	\$ 61,972,602	\$ 15,562,719	33.5%
Special Fund	\$ 46,154,451	\$ 45,172,838	\$ 55,916,733	\$ 10,743,895	23.8%
Federal Fund	1,248,378	1,102,592	5,922,070	4,819,478	437.1%
Total Appropriations	\$ 47,402,829	\$ 46,275,430	\$ 61,838,803	\$ 15,563,373	33.6%
Reimbursable Fund	\$ 203,453	\$ 134,453	\$ 133,799	-\$ 654	-0.5%
Total Funds	\$ 47,606,282	\$ 46,409,883	\$ 61,972,602	\$ 15,562,719	33.5%

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.