Maryland Energy Administration

TO: Chair Wilson, Vice Chair Crosby, and Members of the Economic Matters Committee
FROM: MEA
SUBJECT: HB 398 - Abundant Affordable Clean Energy - Procurement and Development (AACE Act)
DATE: February 6, 2025

MEA Position: LETTER OF INFORMATION

This bill would make significant energy policy changes for the State including: creating a distribution-level energy storage program within the Public Service Commission (PSC); creating a zero-emission credit for nuclear generation assets in the State under certain circumstances; making alterations to a PSC study regarding the interconnection and transmission of offshore wind energy; altering the use of Alternative Compliance Payments within the State's Renewable Portfolio Standard (RPS); stand up a novel procurement mechanism for utility-scale renewables and small-scale solar energy projects in the State; and creating a transmission-level energy storage program within the PSC, amongst other changes not discussed herein.

Reallocation of Alternative Compliance Payments (pg. 13-16 & 36-37)

Alternative Compliance Payments (ACP) were originally intended to provide flexibility within the RPS while guaranteeing in-state investment to develop renewable generation targeted towards low- to moderate-income, overburdened or underserved (LMIOU) communities. Currently, ACP funds a number of MEA's clean energy initiatives, including the Customer-Sited Solar Program instituted by the Brighter Tomorrow Act passed just last year. In total, ACP contributed ~$49,665,000 in FY24, directly benefitting local governments, neighborhoods and hundreds of Maryland households, and will contribute a total of ~$101,799,000 to MEA's efforts in FY25, benefiting even more LMIOU Marylanders than before. It is noteworthy that the reallocation of ACP proposed in this legislation would result in limiting the following MEA efforts to invest in clean energy initiatives in LMIOU communities:

- Reducing energy burdens for low- to moderate-income Marylanders through community solar
- Increasing access for rooftop solar for low- to moderate-income Marylanders
- Increasing community energy resilience efforts
- Decarbonizing Public Schools
- Supporting solar canopies
- Supporting clean energy for higher education

To the extent that Regional Greenhouse Gas Initiative (RGGI) funding is needed to replace ACP funding, other SEIF-funded programs could be severely affected.

Distribution-Level Energy Storage (bill pg. 4-7)

The bill creates a goal of developing 150 megawatts (MW) of distribution-connected energy storage devices by August 2028. The energy storage devices must include a combination of utility-owned and third party-owned devices, but not more than 30% of the devices can be owned by a third party. Each energy storage device will be reviewed by the PSC to ensure the device is beneficial in terms of cost.

Resource adequacy is a growing concern for our State and the nation. In Maryland, to date, its impact and timeline have not yet been quantified. Though there is no panacea to immediately relieve resource adequacy concerns, energy storage can – and should be – part of the solution. By helping to reduce peak load and demand on energy generation and transmission elements, energy storage can serve an important role. For instance, because distribution-level storage does not have to clear the PJM interconnection queue, it can be deployed relatively quickly. This partial solution comes at a cost. The Maryland Energy Administration (MEA) has historically taken a cautious position when considering utility-owned battery storage assets, having warned of the pitfalls of such during the PSC's energy storage pilot program. However, in this limited instance, MEA can support the utility-ownership model outlined in the legislation because of the need to deploy these assets quickly. This also has the added benefit of reducing ratepayer impact, though total ratepayer impacts are unknown at this time. It is possible to consider more stringent ratepayer protections in the form of firm cost caps.

Zero-Emission Credits for Existing Nuclear Generation (bill pg.7-8)

Section 13105 of the Inflation Reduction Act (IRA) added a section 45U to the Internal Revenue Code, providing a tax credit for electricity generation at nuclear facilities. The credit is set at a base rate of 0.3 cents per kilowatt hour of electricity generated at a nuclear generation placed in service before entry into force of the IRA. The credit expires on December 31, 2032.

The AACE Act provides a similar benefit when and if the IRA credit expires, and then provides that subsidy through the calendar year 2055. MEA urges the committee to carefully consider the ratepayer impact of such a maneuver. Until now, all information has pointed to the two nuclear reactors in the State as being profitable without the need for subsidization to maintain a profit motive for continued operation.

Adjustments to Offshore Wind Policy (pg. 9-12)

The bill modifies Public Utilities Article 7–704.3, declaring that it is the policy of the State to engage in a coordinated transmission planning process to support offshore wind energy on a multi-state and regional basis. The bill further requires the PSC to pursue either PJM's long-term transmission

planning process or "an alternative voluntary agreement"[1] as a coordinated approach to transmission for energy derived from offshore wind. Additionally, the bill alters a provision of law that requires the PSC to consult with other states to evaluate regional transmission options for offshore wind energy, opening up that analysis for substation(s) location(s) located outside of the Delmarva Peninsula.

MEA supports the bill sponsor's approach to interconnection of offshore wind energy through alternative approaches, and especially approaches that look beyond the Delmarva Peninsula for interconnection.

Creation of an SREC-II and REC-II (bill pg. 16-24 & 29-33)

The bill calls for an overhaul to the RPS system in which, instead of utilizing market mechanisms to determine the price of Renewable Energy Credits (RECs), the price of RECs would be administratively set by the PSC. While this approach would be novel for the State, New Jersey has recently adopted a similar model. The model and its impact are still unproven as far as its efficacy and cost on ratepayers. Here, the bill sponsor attempts to limit cost implications of small-scale SREC-IIs by capping the overall bill impact to 5% of the total utility bill. However, MEA would note that 5% may constitute a considerable increase in light of other expected increases in residential utility rates.

Transmission-Level Energy Storage (bill pg. 25-29)

The bill creates a competitive process for the procurement of transmission energy storage devices, with a goal of achieving 1,600 MW of transmission energy storage.

MEA would note that these energy storage devices must clear the PJM queue. This creates two challenges. Firstly, the queue is severely delayed. It is not clear how quickly these projects could clear the queue and be brought online. Additionally, very few energy storage projects that make it through the PJM queue are actually developed/built. Because of this, the 1,600 MW goal may be too high. For comparison, California has only been able to procure ~1,500 MW of such storage, of which 506 MW are operational.[2] Given the option of being ambitious with distribution-connected storage and transmission-connected storage, it is probably more appropriate to be more ambitious with the distribution goal rather than the transmission goal since we would not be relying upon the PJM queue.

[1] PJM's State Agreement Approach (SAA) is a provision in PJM's Operating Agreement that enables a state to propose a transmission project for inclusion in PJM's Regional Transmission Expansion Plan that advances that state's Public Policy Requirements, as long as the state agrees to assume the cost of the project's build-out.

[2] In 2013, the California Public Utilities Commission issued Decision (D.)13-10-040, which set an energy storage procurement target of 1,325 MW by 2020. To date, the CPUC has approved procurement of more than 1,533.52 MW of new storage capacity to be built in California. Of this total, 506 MW are operational.
Reference: California Public Utilities Commission, Energy storage, CPUC, n.d., https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/energy-storage.

Our sincere thanks for your consideration of this testimony. For questions or additional information, please contact Landon Fahrig, Legislative Liaison, directly (landon.fahrig@maryland.gov, 410.931.1537).