

DA.13
Maryland Energy Administration

Operating Budget Data

(\$ in Thousands)

	FY 00	FY 01	FY 02		% Change
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Prior Year</u>
General Fund	\$371	\$411	\$432	\$21	5.1%
Special Fund	804	1,026	1,057	31	3.0%
Federal Fund	961	1,327	673	(655)	(49.3%)
Reimbursable Fund	<u>70</u>	<u>73</u>	<u>84</u>	<u>11</u>	<u>15.2%</u>
Total Funds	\$2,205	\$2,837	\$2,245	(\$592)	(20.9%)

- Reductions in one-time federal grants awarded in fiscal 2001 amounting to \$644,000 drive the \$592,000, or 20.9% decrease. Excluding these federal grants, the fiscal 2002 allowance increases approximately 4% over the fiscal 2001 legislative appropriation.
- Enhanced funding is provided to cover ongoing personnel expenditures (\$92,000) and an almost 200% increase in the Maryland Energy Administration's (MEA) share of the statewide overhead costs (\$20,945). This is offset by a decrease (\$65,000) in outside consultant services and replacement of an engineering contract with in-house staff.

Personnel Data

	FY 00	FY 01	FY 02	
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>
Regular Positions	20.00	20.00	20.00	0.00
Contractual FTEs	<u>1.00</u>	<u>1.00</u>	<u>1.00</u>	<u>0.00</u>
Total Personnel	21.00	21.00	21.00	0.00

Vacancy Data: Permanent

Budgeted Turnover: FY 02	0.79	3.96%
Positions Vacant as of 12/31/00	1.00	5.00%

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

For further information contact: Suzanne P. Freed

Phone: (410) 946-5530

Analysis in Brief

Issues

Dealing with the Impact of High Natural Gas and Oil Prices This Summer and Winter: During the summer and winter of 2000, the entire nation faced high energy, gas, and oil prices. In Maryland this winter, customers face natural gas and heating oil prices almost 40% higher than last year.

Governor Expected to Issue Executive Order on State Use of "Green" Building Components: To reduce nitrogen entering the Chesapeake Bay, an executive order is expected to implement a new policy to incorporate "green" building components in State funded facilities.

Recommended Actions

1. Concur with Governor's allowance.

DA.13
Maryland Energy Administration

Operating Budget Analysis

Program Description

The Maryland Energy Administration (MEA) promotes and coordinates integrated energy planning for State agencies, county and municipal governments, and the private and nonprofit sectors. MEA also manages federal energy conservation programs, coordinates the State's participation in interstate energy activities, advises the Governor on energy emergency issues, and maintains energy emergency preparedness. MEA also works with the Department of General Services and other State agencies for the procurement of electricity in the competitive market.

MEA receives approximately 80% of its operating revenues from special and federal funds. A portion of MEA special fund revenues comes from Energy Overcharge Restitution Funds. These funds are federal court settlement monies from oil and gas producers who have violated federal regulations. Other MEA special funds come from a surcharge on utility loan programs. MEA receives federal funding for monitoring the State's heating fuel prices and supplies.

Governor's Proposed Budget

The fiscal 2002 allowance is reduced below the fiscal 2001 working appropriation by \$592,000, or 20.9% (**Exhibit 1**). Reductions in federal grants awarded in fiscal 2001 amounting to \$644,000 drive this decrease. Excluding these federal grants, the fiscal 2002 allowance increases approximately 4% over the fiscal 2001 legislative appropriation.

Increases in Personnel Expenditures Offset by Deletion of Large One-time Federal Grant Projects in Fiscal 2001

An increase in personnel expenditures of approximately \$92,000 includes general salary increases, employee and retiree health insurance, and other benefits. An almost 200% increase in MEA's share of the statewide overhead costs also accounts for significant increases in expenditures. This large increase can be attributed to the fact that these funds are retrospective, and therefore cover undercharging for statewide indirect costs in prior years.

These expenditures are offset by a significant decrease in contractual services, around \$709,000. Of this amount, \$644,000 can be attributed to federal grants received through budget amendment which will be used for several State Energy Program (SEP) special projects, the Clean Cities project, and advancing the use of alternative fuel vehicles in fiscal 2001. The remainder, \$65,000, is attributed to a decrease in outside consultant services and replacing an engineering contract with in-house staff.

Exhibit 1

**Governor's Proposed Budget
Maryland Energy Administration
(\$ in Thousands)**

How Much It Grows:	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimbursable Fund</u>	<u>Total</u>
2001 Working Appropriation	\$411	\$1,026	\$1,327	\$73	\$2,837
2002 Governor's Allowance	432	1,057	673	84	2,245
Amount Change	\$21	\$31	(\$655)	\$11	(\$592)
Percent Change	5.1%	3.0%	(49.3%)	15.2%	(20.9%)

Where It Goes:

Personnel Expenses

General salary increase	\$23
Increments and other compensation	60
Employee and retiree health insurance	22
Other fringe benefit adjustments	4
Retirement contribution rate reduction	(10)
Turnover adjustments	(7)

Non-Personnel Expenses

Increase in statewide allocation costs	21
Increase in telecommunication and support staff for increased workload offset by decrease in office supplies	4
One-time federal grants for Special Energy Projects (SEP), the Clean Cities program, and advancing the use of alternative fuel vehicles	(709)

Total **(\$592)**

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

Performance Analysis: Managing for Results

Exhibit 2 shows the performance indicators for MEA's goal to increase energy efficiency by achieving a 30% reduction in State government energy costs by 2005. In response to the Department of Legislative Services concerns that there were no performance indicators for most of its other goals, MEA sought assistance from the University of Baltimore's Schaefer Center for Public Policy on how to demonstrate its progress, given that it is difficult or impractical to measure some of its goals. MEA has taken the university's recommendation to provide reports on the remaining goals.

Exhibit 2

**Program Measurement Data
Maryland Energy Administration
Fiscal Years**

	<u>Actual</u> <u>1998</u>	<u>Actual</u> <u>1999</u>	<u>Est.</u> <u>2000</u>	<u>Actual</u> <u>2000</u>	<u>Est.</u> <u>2001</u>	<u>Est.</u> <u>2002</u>	<u>Ann.</u> <u>Chg.</u> <u>98-00</u>	<u>Ann.</u> <u>Chg.</u> <u>00-02</u>
Goal 1 Increase Energy Efficiency and Reduce the Cost of State Government								
Objective 1.1 Achieve 30 Percent Reduction in State Energy Costs by 2005								
Energy use reduction (compared to the base year 1992) in State facilities, in Btu's	19.0%	21.0%	23.0%	23.0%	25.0%	27.0%	10.0%	8.3%
Savings from energy use reduction in State facilities (\$ millions)	\$24.0	\$26.8	\$28.7	\$28.7	\$32.2	\$33.7	9.4%	8.4%

Source: Maryland Energy Administration

MEA on Its Way to Reaching Goal of Reducing Energy Use by the State

Chapter 490, Acts of 1992 requires State agencies to reduce their energy consumption by 25% from 1992 levels by 2001. In fiscal 2000, MEA measured a 23% reduction in energy use by State facilities, saving the State \$28.7 million. MEA estimates a 25% reduction for fiscal 2001 and a 27% reduction by fiscal 2002, a savings of \$32 million and \$34 million, respectively. The administration appears to be on target in reaching its goal of a 30% reduction by fiscal 2005.

Issues

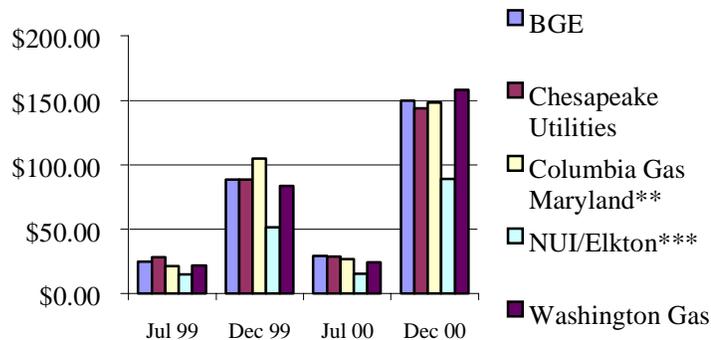
1. Dealing with the Impact of High Natural Gas and Oil Prices This Summer and Winter

During the summer and winter of 2000, the entire nation faced high energy, gas, and oil prices. A hot summer and unusually cold winter in parts of the U.S., particularly the Northeast, exacerbated the crisis of dwindling natural gas and oil supplies. Maryland was no exception; this winter, natural gas and heating oil customers face prices almost 40% higher than last year. Although electric customers were spared these high prices due to reduced, capped rates set under electric deregulation, the electric industry, which uses natural gas to produce electricity, is dealing with rising costs of production.

Exhibit 3 shows the effect of weather conditions on natural gas rates in Maryland, comparing calendar 1999 and 2000. Summer rates did not increase as much between the two years as did winter rates. In July 1999, monthly bills ranged between \$14.70 and \$28.08 throughout the State; in July 2000, monthly bills ranged between \$15.30 and \$29.10. While December 1999 was close to normal winter temperatures, December 2000 was 26% below average. In December 2000, monthly bills ranged from \$88 to \$156 in comparison to the year before when bills were between \$50 and \$105.

Exhibit 3

**Rising Energy Rates In Maryland:
Maryland Residential Natural Gas Bill Comparison
Summer and Winter 1999 and 2000**



Note: Data reflects average customers who buy both gas commodity and distribution service from the utility.
 ** Columbia's data reflects customer usage of 12 Mcf in July and 14 Mcf in December.
 ***NUI/Elkton customers use less gas on average than other utilities' customers.

Source: Maryland Public Service Commission

MEA Closely Monitoring Energy Supplies

In reaction to the possible shortage of natural gas and other energy sources, MEA has been closely monitoring the supply of energy sources in the region. MEA participated in Public Service Commission proceedings to approve power plant projects to supply electricity; met with State, regional, and federal agencies responsible for the system reliability of the power grid; and contacted industry sources to monitor the supply of heating oil and propane. In anticipation of an energy shortage emergency, MEA is in constant contact with various State agencies such as Maryland Emergency Management Administration, Department of Transportation, and Maryland Department of the Environment. MEA has already developed a phased plan to deal with various levels of supply problems.

MEA should be prepared to brief the committees on the current supply of natural gas and heating oil in the region and how its phased plan will deal with energy shortages in the future. Also, MEA should be prepared to comment on the impact, if any, of this winter's energy prices on State agencies and the State budget, as well as local governments.

2. Governor Expected to Issue Executive Order on State Use of "Green" Building Components

To reduce the level of nitrogen entering the Chesapeake Bay, an executive order is expected to implement a new policy to incorporate "green" building components in State funded facilities. Specifically related to MEA, State contracts for the purchase of electricity would include provisions requiring that some percentage of the power supplied be generated using renewable resources, such as wind, solar, and biomass. Since electricity generation plants are the largest source of airborne nitrogen, increased reliance on renewable energy sources will reduce the amount of nitrogen entering the bay.

"Green Electricity" May Cause Large Short-Term Costs but Long-Term Benefits

The executive order will require the creation of a Maryland environmental building commission that will adopt a rating system for building construction. The system will award aspects of construction that are environmentally friendly, such as water and energy efficiency or usage of recycled materials, and establish minimum standards for building construction. Depending on the rating system chosen, however, the cost of construction could soar. For example, the Chesapeake Bay Foundation, built a headquarters building in Annapolis using the "Leadership in Energy and Environmental Design Green Building Rating System" (LEED System), reported that cost for portions of the project are 30% above those using standard building practices.

MEA points out that long-term benefits will outweigh the short-term costs. Health costs associated with air pollution cause greater State spending in Medicaid, for example, but can be reduced through energy efficiency. Moreover, such an initiative can spark economic growth by creating jobs and entrepreneurial opportunity in developing alternative construction methods.

DA.13 - Maryland Energy Administration

MEA should be prepared to update the committees on the status of the executive order for "green components" building construction and major requirements of the order. Also, MEA should address how it will monitor the implementation of the "Green Building Components" executive order by State agencies.

Recommended Actions

1. Concur with Governor's allowance.

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 2000					
Legislative Appropriation	\$365	\$878	\$625	\$70	\$1,938
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	6	0	462	0	468
Reversions and Cancellations	0	(74)	(126)	0	(\$200)
Actual Expenditures	\$371	\$804	\$961	\$70	\$2,206
Fiscal 2001					
Legislative Appropriation	\$411	\$1,026	\$683	\$73	\$2,193
Budget Amendments	0	0	644	0	644
Working Appropriation	\$411	\$1,026	\$1,327	\$73	\$2,837

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

MEA's fiscal 2001 appropriation increased by \$644,136 in federal funds. Of this amount, \$464,136 was received through the U.S. Department of Energy and will be used for several State Energy Program (SEP) special projects, the Clean Cities project, and advancing the use of alternative fuel vehicles. The

DA.13 - Maryland Energy Administration

remainder, \$180,000, will be used to aid the State in encouraging the use of alternative fuels in the vehicle market. Specifically, MEA will award a contract to the Maryland Grain Producers Utilization Board, which will then contract out with service station owners willing to sell E85 fuel, a corn based fuel that is a domestic renewable and cleaner source of fuel than gasoline.

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

Positions	Object/Fund	FY01		FY02 Allowance	FY01 - FY02 Amount Change	Percent Change
		FY00 Actual	Working Appropriation			
01 Regular		20.00	20.00	20.00	0	0%
02 Contractual		1.00	1.00	1.00	0	0%
Total Positions		21.00	21.00	21.00	0	0%
Objects						
01 Salaries and Wages		\$ 1,142,950	\$ 1,217,693	\$ 1,308,505	\$ 90,812	7.5%
02 Technical & Spec Fees		23,027	27,403	30,084	2,681	9.8%
03 Communication		60,700	26,245	30,548	4,303	16.4%
04 Travel		27,715	27,295	28,200	905	3.3%
06 Fuel & Utilities		2,823	14,000	14,166	166	1.2%
07 Motor Vehicles		1,811	2,734	2,378	(356)	(13.0%)
08 Contractual Services		846,424	1,367,317	658,100	(709,217)	(51.9%)
09 Supplies & Materials		7,561	13,600	10,641	(2,959)	(21.8%)
10 Equip - Replacement		14,651	12,159	13,126	967	8.0%
11 Equip - Additional		2,101	2,683	2,500	(183)	(6.8%)
12 Grants,Subsidies,Contr		16,070	10,680	31,625	20,945	196.1%
13 Fixed Charges		58,779	115,074	115,423	349	0.3%
Total Objects		\$ 2,204,612	\$ 2,836,883	\$ 2,245,296	(\$ 591,587)	(20.9%)
Funds						
01 General Fund		\$ 370,647	\$ 410,952	\$ 432,000	\$ 21,048	5.1%
03 Special Fund		803,545	1,025,939	1,057,220	31,281	3.0%
05 Federal Fund		960,747	1,327,448	672,507	(654,941)	(49.3%)
09 Reimbursable Fund		69,673	72,544	83,569	11,025	15.2%
Total Funds		\$ 2,204,612	\$ 2,836,883	\$ 2,245,296	(\$ 591,587)	(20.9%)

Note: Full-time and contractual positions and salaries are reflected for operating budget programs only.

Fiscal Summary
Maryland Energy Administration

<u>Unit/Program</u>	FY00	FY01	FY01	FY00 - FY01	FY02	FY01 - FY02
	<u>Actual</u>	<u>Legislative Appropriation</u>	<u>Working Appropriation</u>	<u>% Change</u>	<u>Allowance</u>	<u>% Change</u>
01 General Administration	\$ 2,204,612	\$ 2,192,746	\$ 2,836,883	28.7%	\$ 2,245,296	(20.9%)
Total Expenditures	\$ 2,204,612	\$ 2,192,746	\$ 2,836,883	28.7%	\$ 2,245,296	(20.9%)
General Fund	\$ 370,647	\$ 410,952	\$ 410,952	10.9%	\$ 432,000	5.1%
Special Fund	803,545	1,025,939	1,025,939	27.7%	1,057,220	3.0%
Federal Fund	960,747	683,311	1,327,448	38.2%	672,507	(49.3%)
Total Appropriations	\$ 2,134,939	\$ 2,120,202	\$ 2,764,339	29.5%	\$ 2,161,727	(21.8%)
Reimbursable Fund	\$ 69,673	\$ 72,544	\$ 72,544	4.1%	\$ 83,569	15.2%
Total Funds	\$ 2,204,612	\$ 2,192,746	\$ 2,836,883	28.7%	\$ 2,245,296	(20.9%)

13