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Maryland Energy Administration

Operating Budget Data

($ in Thousands)

	FY 14 Actual	FY 15 Working	FY 16 Allowance	FY 15-16 Change	% Change Prior Year
Special Fund	$45,566	$62,076	$45,420	-$16,656	-26.8%
Deficiencies and Reductions	0	0	-92	-92	
Adjusted Special Fund	**$45,566**	**$62,076**	**$45,329**	**-$16,747**	**-27.0%**
Federal Fund	1,227	1,366	1,067	-299	-21.9%
Deficiencies and Reductions	0	0	-10	-10	
Adjusted Federal Fund	**$1,227**	**$1,366**	**$1,057**	**-$309**	**-22.6%**
Reimbursable Fund	125	145	134	-11	-7.4%
Adjusted Reimbursable Fund	**$125**	**$145**	**$134**	**-$11**	**-7.4%**
Adjusted Grand Total	**$46,918**	**$63,587**	**$46,520**	**-$17,067**	**-26.8%**

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- The fiscal 2016 allowance of the Maryland Energy Administration (MEA) decreases by $17.1 million, or 26.8%, compared to the fiscal 2015 working appropriation after accounting for across-the-board reductions in fiscal 2016.

- The special fund decrease of $16.7 million occurs as a result of (1) a higher use of the Strategic Energy Investment Fund (SEIF) balances to support spending in fiscal 2015 than in fiscal 2016; (2) lower use of offshore wind funding for technical studies and economic development; and (3) the Customer Investment Fund allocation plan.

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

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- Federal funds decrease by $308,949 due to the availability of federal grant funds. A portion of the federal fund decrease ($137,107) is the result of the end of the Advancing Energy Efficiency in Public Buildings grant in fiscal 2015. There is also a decrease of $115,052 in the Energy Performance Contract Assistance grant, which ends in fiscal 2016.

Personnel Data

	FY 14 Actual	FY 15 Working	FY 16 Allowance	FY 15-16 Change
Regular Positions	30.00	34.00	34.00	0.00
Contractual FTEs	12.60	10.50	10.50	0.00
Total Personnel	**42.60**	**44.50**	**44.50**	**0.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	1.70	5.00%
Positions and Percentage Vacant as of 12/31/14	5.00	14.71%

- The fiscal 2016 allowance of MEA contains no changes in the number of regular positions or contractual full-time equivalents.

- Turnover expectancy at MEA decreases from 6.95% to 5.0% in fiscal 2016.

- As of December 31, 2014, MEA had a vacancy rate of 14.7%, or 5.0 positions. To meet its turnover expectancy, MEA must maintain 1.70 vacant positions in fiscal 2016.

Analysis in Brief

Major Trends

EmPOWER Maryland Goals: Maryland nearly met the goal of a 15.0% reduction in per capita peak demand by calendar 2015, nearly two years in advance after achieving a 14.7% reduction in calendar 2013. However, progress has been slower in reducing per capita energy consumption, as of calendar 2013, the State achieved a reduction of 9.7%, slightly less than two-thirds of the goal.

American Council for an Energy-Efficient Economy Scorecard: Each year the American Council for an Energy-Efficient Economy produces a state scorecard ranking each state on a variety of measures related to state progress and investment in energy efficiency. Maryland's ranking has been in the top 10 in the scorecard since 2011.

Renewable Energy in Service: Growth in renewable energy in service continued in calendar 2014 in both the residential and small commercial and commercial scale sectors; however, growth was slower than in the previous year.

Issues

Regional Greenhouse Gas Initiative Revenue and Allocation: In calendar 2014, a dramatic reduction in available allowances in Regional Greenhouse Gas Initiative carbon dioxide emission allowance auctions occurred as a result of program changes announced in calendar 2013, which in turn had a significant impact on revenue. Although allowance prices were higher in calendar 2014, total revenue was lower than in calendar 2013 due to a reduction in the number of available allowances. MEA projects generally increasing auction clearing prices in calendar 2015 and 2016, consistent with the lower number of available allowances. Recent spending from the SEIF has incorporated use of fund balance that largely accumulated during calendar 2013 and 2014. The Budget Reconciliation and Financing Act of 2015 proposes to transfer $6.0 million from the SEIF balance to the general fund.

Public Service Commission Order Provides Funds for Energy Efficiency and Clean Energy: On May 30, 2014, the Public Service Commission (PSC) granted a certificate of public convenience and necessity for a generating station to be built by Dominion Cove Point LNG, LP at the site of its existing liquefied natural gas facility with a series of conditions. One of the conditions was a requirement to contribute $8.0 million per year for five years, a total of $40.0 million, to the SEIF for renewable and clean energy, greenhouse gas mitigation, energy efficiency, and demand response programs. The first payment is to be made within 90 days of the commencement of construction of the facility. MEA anticipates funding will be available beginning in early calendar 2015.

Recommended Actions

		Funds	Positions
1.	Delete the position for Governor's Energy Advisor.	$ 90,916	1.0
2.	Delete a position created outside of the Rule of 100 because the grant funds have ended.	88,075	1.0
3.	Adopt committee narrative requesting new performance measures.		
4.	Add budget bill language requiring information on the Regional Greenhouse Gas Initiative revenue and allocation in the fiscal 2017 budget books.		
	Total Reductions	**$ 178,991**	**2.0**

Updates

EmPOWER Maryland: MEA and PSC are continuing to develop the next phase of EmPOWER Maryland, including the expansion to natural gas. Washington Gas and Light (WGL) filed for approval of natural gas energy efficiency programs in August 2014. PSC approved WGL's energy efficiency programs in a December 2014 order. Also, in the December 2014 order, PSC continued to take steps toward a post-EmPOWER Maryland 2015 goal setting process, by asking for comments on proposed goal allocation methodologies. The hearings on these comments were held in February 2015.

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 clean bank financing initiatives. The interim report was due on December 1, 2014, with a final report due on December 1, 2015. The interim report indicated that gaps exist within various energy efficiency/clean energy markets, which could provide an opportunity for a green bank in Maryland. MCEC plans more specific recommendations about the formation, funding sources, and performance goals in the final report.

Operating Budget Analysis

Program Description

The Maryland Energy Administration (MEA) is an independent unit of State government with a mission of promoting affordable, reliable, and clean energy. 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 and managing energy emergencies and disruptions. MEA's programs affect local and State government nonprofit organizations, residential consumers, and commercial and industrial consumers. MEA's key goals are:

- to increase Maryland's energy efficiency and energy conservation;
- to reduce State agency energy consumption;
- to improve the energy efficiency of local governments, nonprofits, and businesses;
- to increase electricity generation fuel diversity, improve air quality, and reduce greenhouse gas emissions through the use of renewable energy; and
- to reduce the State's consumption of petroleum fuels through increased use of alternative fuels and advanced transportation technologies.

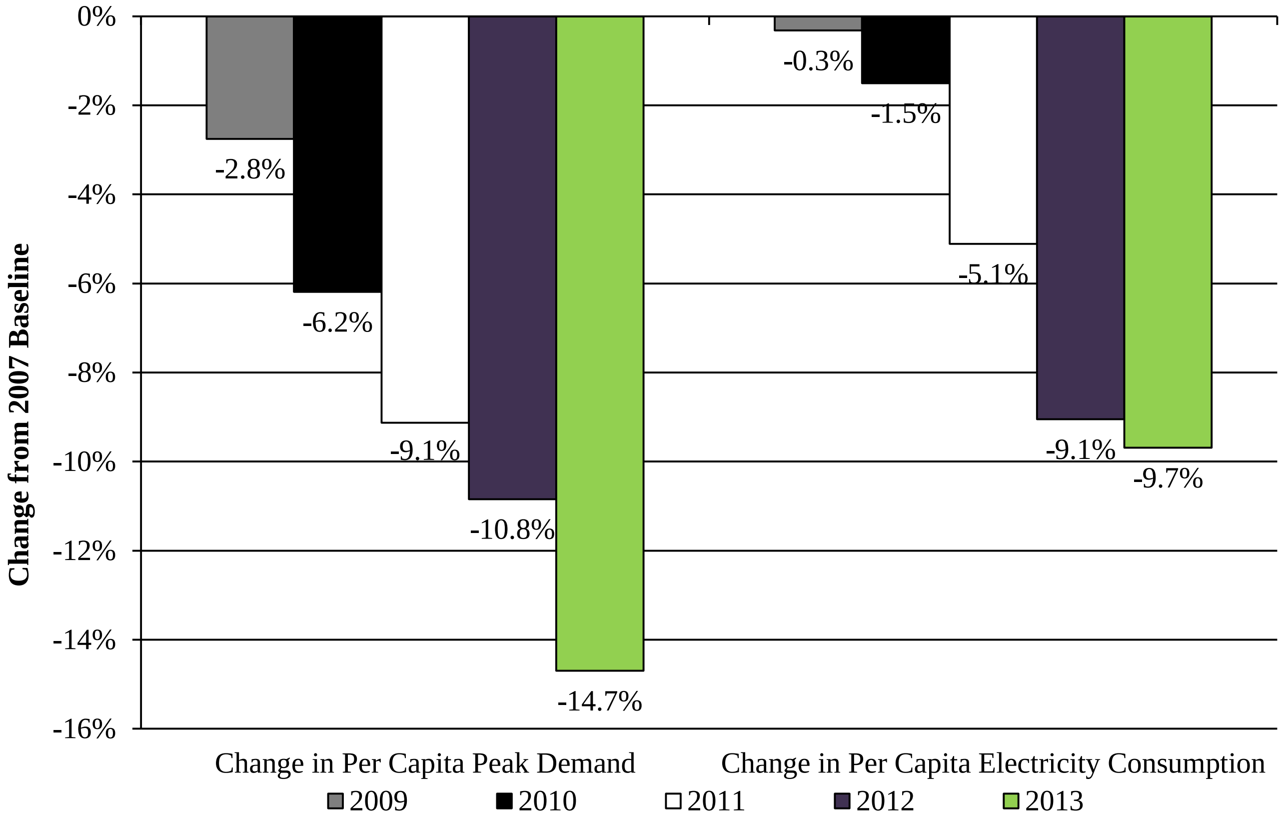
Performance Analysis: Managing for Results

1. EmPOWER Maryland Goals

Chapter 131 of 2008 (the EmPOWER Maryland Energy Efficiency Act) established goals of reducing per capita peak demand and electricity consumption in the State by 15% by the end of calendar 2015 and interim goals of a 5% reduction by 2011. MEA's Managing for Results (MFR) submission contains measures that show the State's progress in meeting these goals. These measures generally reflect activity in the State, not only changes relating to MEA's programs, and reflects the cumulative progress over time in meeting these goals. Due to the timing of the release of energy consumption data, the calendar 2014 data are estimates.

As shown in **Exhibit 1**, after relatively modest progress in meeting the per capita peak demand between calendar 2011 and 2012, substantial progress was made in this measure in calendar 2013 (an

Exhibit 1
EmPOWER Maryland Goal Progress
Calendar 2009-2013



Source: Maryland Energy Administration; Governor's Budget Books

additional reduction of 3.9 percentage points). MEA reports that the substantial progress in calendar 2013 was largely the result of the roll out of dynamic pricing programs in the Potomac Electric Power Company (Pepco) service territory. Under this program, customers that reduce electricity use on certain hot days in the summer receive a $1.25 per kilowatt hour rebate for each kilowatt hour saved over the customer's baseline usage. MEA also noted impacts from increased demand reduction program activity for small businesses and the commercial and industrial sectors. The calendar 2013 reduction in per capita peak demand (14.7%) results in a near achievement of the goal two years in advance. Only limited additional progress is required to meet the 15.0% goal, and MEA anticipates that the goal will be met in 2015.

By contrast, after substantial progress was made in achieving the per capita electricity consumption goal between calendar 2011 and 2012, only modest progress was made in calendar 2013 (an additional reduction of 0.6 percentage points). Through calendar 2013, the State has achieved a reduction of 9.7% in per capita electricity consumption, slightly less than two-thirds of the goal. Substantial additional reductions would be required in calendar 2014 and 2015 to meet the goal. MEA indicates that one difficulty with the current measure (a top down approach) is that the data captures all changes in electricity consumption, including those related to improvements in the economy or increased use of electric vehicles. Weather may also factor into the per capita electricity consumption, given the extreme cold weather in early calendar 2014, additional reductions may be limited in that year. **MEA should comment on the likelihood of meeting the goal.**

As of calendar 2013, MEA estimates that $780 million of electricity costs have been avoided as a result of the State's progress in meeting these goals. MEA anticipates that if the State meets the goals in calendar 2015, Maryland will have avoided electricity costs totaling $1.2 billion.

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 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 electricity programs and policies, transportation, building energy codes, combined heat and power, state government initiatives, and appliance efficiency standards). The 2008 scorecard included several categories, which were combined into the state government initiatives. The methodology and calculation of points is often slightly changed each year to reflect changes in the field. As a result, some changes in scores and rankings could reflect changes in calculation.

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 of states in the scorecard. Out of a maximum total score of 50, since the 2011 scorecard, Maryland's score has been at or near 30. In the 2014 scorecard, Maryland's strongest category was in the area of building energy codes (which measures both code stringency and compliance) where the State achieved 6 of 7 possible points. In that scorecard, Maryland's weakest category was in the area of appliance standards where the State achieved 0.5 of 2.0 possible points. ACEEE noted that most of the appliance standards in Maryland have been preempted by federal standards. In the future, Maryland's ranking and score is likely to be impacted by the outcome of the current planning process for EmPOWER Maryland (more fully discussed in Update 1). **MEA should comment on Maryland's ranking in the ACEEE and how changes in the EmPOWER Maryland program might impact the State's ranking in the future.**

Exhibit 2
ACEEE Rankings
2008-2014 Scorecard

	ACEEE Points	ACEEE Ranking
2008	21.5	12
2009	24.0	11*
2010	24.0	16*
2011	30.5	10
2012	30.0	9*
2013	27.5	9
2014	30.0	9

ACEEE: American Council for an Energy-Efficient Economy

*Indicates State was tied with at least one other state.

Note: The maximum number of points is 50. Low ranking is considered better.

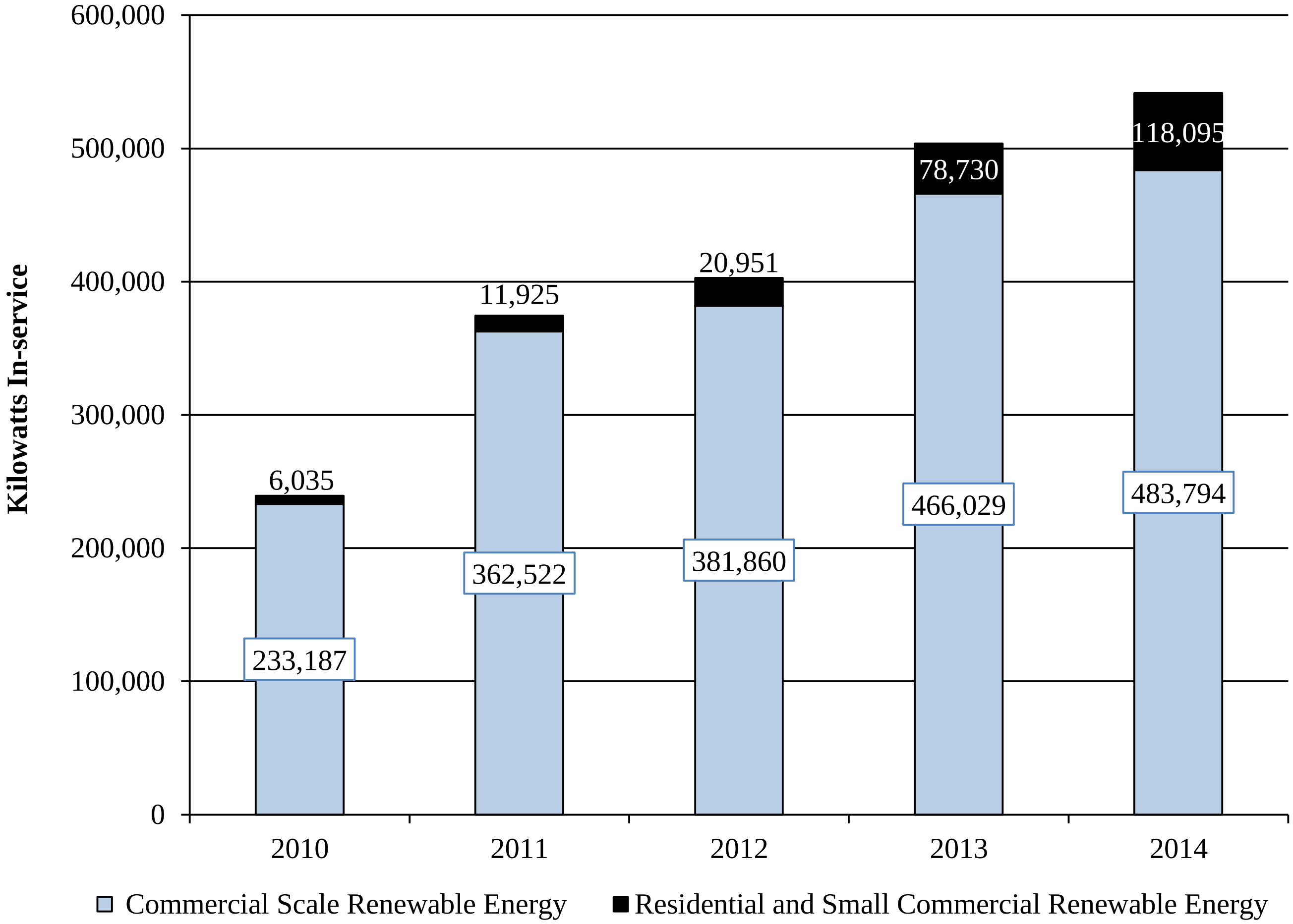
Source: American Council for an Energy-Efficient Economy

3. Renewable Energy in Service

MEA has a goal of increasing electricity generation fuel diversity, improving air quality, and reducing greenhouse gas emissions through the increased use of renewable energy. As shown in **Exhibit 3**, in calendar 2014, residential and small commercial renewable energy in service increased by more than 50.0%; however, because this segment of renewable energy in service is relatively small compared to the commercial scale renewable energy, total growth in renewable energy in service increased by only 7.5% compared to calendar 2013. Growth in both sectors was less than in the previous year.

MEA's MFR submission, with limited exception for two pay-as-you-go programs, focuses on statewide activities rather than individual program outcomes. MEA has several years of experience with programs funded from the SEIF and as a result could start measuring outcomes from specific programs. **The Department of Legislative Services (DLS) recommends MEA submit new performance measures with its fiscal 2017 MFR submission to track outcomes from specific programs.**

Exhibit 3
Renewable Energy in Service
Calendar 2010-2014



Note: Calendar 2013 figures were revised from those reported previously to remove a facility that closed in calendar 2012, but was inadvertently included in the calendar 2013 figures in the 2014 session and an error that led to double counting of some projects.

Source: Maryland Energy Administration

Fiscal 2015 Actions

The fiscal 2015 budget bill included language that restricted $1.5 million of MEA's funding in the Energy Efficiency and Conservation Programs, All Other Sectors to be used instead in the Department of Housing and Community Development (DHCD) for a Net Zero Homes program. The Net Zero Homes program was a new initiative originally funded with $3.0 million of general obligation (GO) bonds in the fiscal 2015 capital budget bill. The funds were expected to be used as initial capitalization for a revolving loan fund program. However, these GO bonds were deleted by the legislature. The restricted funds were intended to replace the GO bonds, although at a lower level in order to allow the program to begin development. In January 2015, DHCD indicated that it was not feasible to implement the program with this lower funding level. As a result, the $1.5 million is no longer expected to be transferred. Under the requirements of the budget bill language, these funds are required to be cancelled if not used for the restricted purpose.

Proposed Budget

As shown in **Exhibit 4**, MEA's fiscal 2016 allowance decreases by $17.1 million, or 26.8%, compared to the fiscal 2015 working appropriation after accounting for across-the-board reductions. The decrease occurs among all three fund sources in MEA. The primary reason for the decrease in special funds is related to the availability of the SEIF, discussed in Issue 1.

Federal funds decrease by $308,940, or 22.6%, in the fiscal 2016 allowance. This reduction results largely from changes in grants for the following specific projects from the Department of Energy:

- the end of the Advancing Energy Efficiency in Public Buildings federal grant in fiscal 2015 (a decrease of $137,107);

- the Energy Performance Contract Assistance grant to assist local governments in developing these contracts (a decrease of $115,052); and

- a grant related to building code training (a decrease of $63,024).

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

How Much It Grows:	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2014 Actual	$45,566	$1,227	$125	$46,918
Fiscal 2015Working Appropriation	62,076	1,366	$145	63,587
Fiscal 2016 Allowance	45,329	1,057	$134	46,520
Fiscal 2015-2016 Amt. Change	-16,747	-309	-$11	-$17,067
Fiscal 2015-2016 Percent Change	-27.0%	-22.6%	-7.4%	-26.8%

Where It Goes:

Personnel Expenses	
Turnover expectancy decreases from 6.95% to 5.0%	$65
Employee and retiree health insurance	43
Employee retirement	34
Other fringe benefit adjustments	2
Section 21: Across-the-board reduction to eliminate increments	-49
Section 20: Across-the-board 2% pay reduction	-53
Regular earnings including planned increments, annualization of fiscal 2015 cost-of-living adjustment and filling vacant positions at lower salaries (before cost containment)	-69
Contractual employee payroll due to hiring at lower salaries	-126
Offshore Wind	
Offshore Wind Business Development Fund	-150
Offshore Wind Development Fund	-5,289
Eliminated Programs	
Maryland Resiliency Grant Program due to lower than expected demand	-750
Solar Energy Program because studies are expected to be completed in fiscal 2015	-1,250
Changes in Programs Based on Availability of SEIF and Agency Priorities	
Commercial and Industrial Grant Program	375
Maryland Smart Energy Communities Grant Program	125
Grid Resiliency/Microgrid Grant Program	-1,000
Clean Energy Grant programs	-1,015
Transportation Programs	-1,500

Where It Goes:	
Program Changes Due to Availability of Federal Grants	
End of Advancing Energy Efficiency in Public Buildings nonpersonnel costs	-54
Building code training	-63
Energy Performance Contract assistance program non-administration program costs	-116
Customer Investment Fund Programs Based on Funding Allocation Plan	
Next Generation Energy Efficiency program for industrial customers	-87
Small Business Energy Advance program	-113
Net Zero Schools program	-2,376
Limited Time Activities	
Outside counsel assisting the agency in the Exelon Corporation and Pepco Holdings, Inc. merger review	-500
Loan to Maryland Clean Energy Center	-760
Fast Charging Vehicle program from American Electric Power settlement	-1,284
Fiscal 2015 funds restricted to be used for the Net Zero Homes Program in the Department of Housing and Community Development	-1,500
Cost Allocations and Administrative Expenses	
Evaluation, measurement, and activities	344
Association dues not included in fiscal 2015 in error	95
Department of Budget and Management paid telecommunications	9
Cost allocations	-3
Office expansion to accommodate staff growth	-138
Other changes	85
Total	**-$17,067**

SEIF: Strategic Energy Investment Fund

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Cost Containment

The fiscal 2016 allowance includes an across-the-board 2% pay reduction. MEA's share of the reduction is $53,000 ($43,000 in special funds and $10,000 in federal funds). The fiscal 2016 allowance also includes an across-the-board reduction due to the elimination of the increments. MEA's share of the reduction is $48,787 in special funds. These actions are fully explained in the analysis of the Department of Budget and Management – Personnel.

Offshore Wind Activities

Offshore Wind Business Development Fund

Chapter 3 of 2013 (the Maryland Offshore Wind Energy Act) established the Maryland Offshore Wind Business Development Fund (MOWBDF) in MEA 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 based on the Consumer Price Index). Chapter 3 also established an advisory committee for the fund, which was to make recommendations to MEA on the most effective use of the fund to maximize opportunities for emerging businesses in the State by December 31, 2013, with updated recommendations due by December 31, 2014.

The final report included six recommendations. Two of the recommendations require no funding from the MOWBDF, which are to (1) develop a mechanism for the now defunct advisory committee to receive updates on the progress of implementing the recommendations; and (2) provide a full briefing on the work of the committee to the Administration and create a coordinated offshore wind initiative among relevant State agencies. The other recommendations were to:

- procure an offshore wind supply chain map by function and competency (procurement currently underway);
- conduct a two-stage outreach effort targeting emerging businesses, initially to potential primary contractors and later on to potential secondary and tertiary contractors;
- dedicate a State employee to securing cost-sharing and leveraging opportunities to provide additional resources beyond what is available in the MOWBDF; and
- develop a four-stage support program for Maryland's emerging businesses including immediate, short-term, medium-term, and long-term support based on different stages of the project development (in the immediate term early market entry grants were recommended, which are currently available to applicants).

The MOWBDF is initially comprised of funds transferred from the SEIF (from the Offshore Wind Development Fund created from the Exelon Corporation and Constellation Energy Group merger). Chapter 3 requires these transfers in fiscal 2014 ($1.5 million), fiscal 2015 ($1.5 million), and fiscal 2016 ($1.0 million). The budget of MEA has included the funds related to these transfers since fiscal 2014, although ultimately none of the funds were expended in fiscal 2014. The fiscal 2016 allowance includes $1.35 million from the MOWBDF, a decrease of $150,000 from the fiscal 2015 working appropriation, which is more than the required transfer in that year. The additional funds are available from the fund balance resulting from the unspent fiscal 2014 funds.

MEA intends to use these funds to support outreach to emerging businesses, including minority-owned emerging businesses, through a memorandum of understanding with the University of Maryland Baltimore County Small Business Development Center. MEA is also in the process of procuring services to produce an offshore wind supply chain map. Finally, MEA will provide assistance grants to support market entry.

An additional $6.0 million would be available to the MOWBDF if an offshore wind application is approved. The approved applicant is required to contribute $2.0 million at three separate milestones (1) 60 days after Public Service Commission (PSC) approval of the application; (2) one year after the initial deposit into the fund; and (3) two years after the initial deposit into the fund. As of this writing no application for an offshore wind project has been filed with PSC. **MEA should comment on its long-term plans for the MOWBDF given that only $4.0 million is currently available to the fund.**

Offshore Wind Development Fund

MEA's fiscal 2016 allowance includes $1.3 million of funds from the SEIF available from the Offshore Wind Development Fund, a decrease of $5.3 million. The fiscal 2015 appropriation from the Offshore Wind Development Fund is primarily being used for a variety of technical studies; however, $2.0 million is reserved for economic development activities. In fiscal 2016, in addition to using this funding for a variety of technical studies, MEA plans to use a portion of the funding for a grant to the Offshore Wind Business Network. An additional $265,575 from the Offshore Wind Development Fund is expected to be used for administrative costs. Based on the closing fiscal 2014 fund balance, fiscal 2015 working appropriation, and fiscal 2016 allowance, the estimated fund balance at the close of fiscal 2016 would be $9.6 million.

Customer Investment Fund

Another one of the conditions of PSC's approval of the merger of Constellation Energy Group and Exelon Corporation required a contribution of a total of $113.5 million into a Customer Investment Fund (CIF) in three equal annual installments. PSC did not specify in the initial order requiring the contribution how the CIF would be used but noted that it would determine the allocation later. After a request for proposals process, in November 2012 PSC issued an order allocating the entire CIF with certain levels provided to various organizations (Baltimore City; Baltimore County; Comprehensive Housing Assistance, Inc.; Fuel Fund of Maryland; DHCD; and MEA) and required the organizations receiving CIF allocations to work with PSC staff to develop a funding plan and the amount of the organization's first allocation of CIF.

Three programs receiving funds are budgeted within MEA (Small Business Energy Advance Program, Net Zero Schools program, and Next Generation Energy Efficiency Gains for the Industrial Sector program). The fiscal 2016 allowance for these programs contains the anticipated amount of funding based on the funding allocation plan, a total of $3.3 million and a decrease of $2.6 million compared to fiscal 2015. Under the CIF allocation plan, no funds are required for the Small Business Energy Advance program in fiscal 2016.

Based on the funding allocation plan, the CIF would have been depleted in fiscal 2016. However, PSC revised the distribution for some programs, including one program funded within MEA (the Next Generation Energy Efficiency Gains for the Industrial Sector program) in December 2014 due to spending patterns within the program. These funds, $304,295, are currently appropriated in MEA's fiscal 2015 appropriation, but if not spent in that year, would need to be re-appropriated because the funds are not included in the fiscal 2016 allowance. **MEA should comment on when it intends to spend and, if necessary, appropriate the remaining funds.**

Electric Vehicle Recharging Equipment Rebate

Chapters 359 and 360 of 2014 eliminated an income tax credit for electric vehicle recharging equipment established in Chapter 402 of 2011 and extended by Chapter 389 of 2013, and established instead an electric vehicle recharging equipment rebate program to be operated by MEA. Under the tax credit program, an individual or corporation could apply to MEA for an initial credit certificate for an income tax credit for 20% of the cost of qualified electric vehicle recharging equipment placed in service in a tax year. The amount of the credit could not exceed the lesser of $400 or the State income tax of the entity for that year. The credit was limited to 1 system per individual or 30 systems per business. The maximum amount of the credit was limited to $400,000 in tax year 2011, $500,000 in tax year 2012, and was scheduled to be $600,000 in tax years 2013 through 2016, until the tax credit was ended after tax year 2014. Transfers from the SEIF to the general fund were required to replace the lost revenue from the tax credit from fiscal 2013 to 2016 (for tax year 2011 through 2014).

Under the electric vehicle recharging equipment rebate program, from fiscal 2015 through 2017, individuals, businesses, or State or local governments may apply for a rebate for the cost of acquiring and installing qualified equipment, which in general provides the lesser of 50% of the costs or a certain dollar amount depending on who is applying ($900 for individuals, $5,000 for businesses or unit of State or local government, $7,500 for a retail service station dealer). Total rebates in any fiscal year are not to exceed $600,000. The change became effective on July 1, 2014. As a result, MEA has set aside funding in the fiscal 2015 appropriation and fiscal 2016 allowance for this purpose. Of note, the SEIF will be used for both the tax credit and the rebate program in fiscal 2015 and 2016.

Grid Resiliency/Microgrid Program

Annually MEA realigns program activity during the year to reflect changing agency priorities. In fiscal 2015, MEA launched a new program (Micro-Grid/Grid Resiliency Program), not originally planned in that year. Under the program, MEA plans to provide grants for projects that leverage state-of-the-art power control, communication, and building automation technologies that participate in demand response markets or programs. This fiscal 2016 allowance contains $1.5 million for this program, $1.0 million less than fiscal 2015.

Maryland Energy Resiliency Grant Program

The Maryland Energy Resiliency Grant program, previously known as the Maryland Emergency Grant program, was created in fiscal 2014. In that year, the program was funded at $1.7 million. The program initially focused on providing backup emergency generation at fuel stations. During the 2014 session, MEA anticipated providing $1.7 million (later changed to $3.0 million with funds provided in a supplemental budget) for the program in fiscal 2015. Language in the fiscal 2015 budget bill expressed intent that the $1.7 million initially provided for the program be used to incentivize backup emergency generators at volunteer fire department firehouses used as shelters during emergency situations. MEA has expanded the program to allow volunteer fire department firehouses to receive grant funds in fiscal 2015 consistent with the intent language in the budget bill. However, as part of the annual realignment of funding, MEA reduced the funding for the program to $750,000 in fiscal 2015. The fiscal 2016 allowance eliminates funding for the program. MEA indicates that demand for the program has been lower than expected.

Issues

1. Regional Greenhouse Gas Initiative Revenue and Allocation

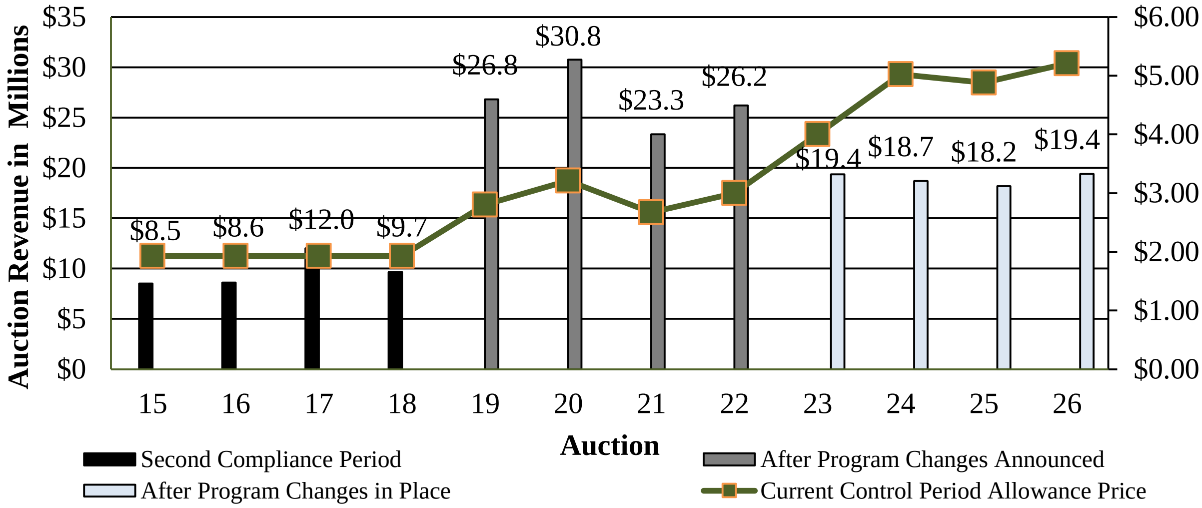
Chapters 127 and 128 of 2008 established the SEIF, which is composed primarily of revenue received from the Regional Greenhouse Gas Initiative (RGGI) carbon dioxide emission allowance auctions. The chapters also established an allocation of the revenue from the RGGI auctions to be distributed among various categories of spending. Other revenue in the SEIF available from different fund sources (such as Alternative Compliance Payments from the Renewable Portfolio Standard and the Offshore Wind Development Fund) is not subject to the allocation.

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. However, the cost containment reserve only holds a certain number of allowances each year (5 million in calendar 2014 and 10 million in each subsequent year), and once those have been distributed there is no more cost containment reserve available for the year.

RGGI Revenue

As shown in **Exhibit 5**, the announcement of the program changes had an immediate impact on the auction revenue 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, 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 in calendar 2014 (after the program changes went into effect), the clearing price reached the cost containment reserve, and all of the reserve allowances were released. The clearing prices in the remaining calendar 2014 auctions were above the cost containment reserve price, since no further reserve was available. Despite higher clearing prices than in calendar 2013, the auction revenue was lower in calendar 2014, because fewer allowances were available to be sold. The clearing price reached its highest level in program history in the December 2014 auction.

Exhibit 5
RGGI Auction Results for Maryland
Auctions 15-26



RGGI: Regional Greenhouse Gas Initiative

Source: Regional Greenhouse Gas Initiative, Inc.

Despite a reduction in the number of allowances available for auction in March and June 2015, MEA projects a lower auction clearing price ($4.60) than occurred in the last three auctions, while projecting a higher auction clearing price ($5.67) for the September and December 2015 auctions with the same number of allowances expected to be auctioned. **MEA should comment on the reason for the projected auction clearing prices in the first two auctions in calendar 2015 given the recent history.**

The fiscal 2016 allowance assumes a substantial increase in the allowance clearing price for the March and June 2016 auctions ($7.40), which results in higher revenue in fiscal 2016 even with fewer allowances available for sale in the two calendar 2016 auctions.

SEIF Allocation

The allocation of revenue from RGGI auctions established in Chapters 127 and 128 was in effect for only two auctions before it was temporarily changed in the Budget Reconciliation and Financing Act (BRFA) of 2009. The BRFA of 2011 once again altered the allocation temporarily (for auctions held in fiscal 2012, 2013, and 2014). The BRFA of 2014 permanently altered the allocation of the RGGI revenue in the SEIF. **Exhibit 6** provides a summary of the four allocations of RGGI revenue.

Exhibit 6
Comparison of Statutory Allocations of RGGI Auction Proceeds and Time Period of Use

	Chapters 127 and 128 of 2008	BRFA of 2009 (Chapter 487 of 2009)	BRFA of 2011 (Chapter 397 of 2011)	BRFA of 2014
In Effect for Auction Numbers	1 and 2 (September and December 2008); and beginning with 25 (September 2014)	3-12 (March 2009 – June 2011)	13-24 (September 2011 – June 2014)	25 – indefinitely (September 2014)
Energy assistance for the Electric Universal Service Program and other electricity assistance	17.0%	Up to 50.0%	Up to 50.0%	At least 50.0%
Residential rate relief	23.0%	23.0%	0.0%	0.0%
Energy Efficiency and Conservation (at least one-half for low- and moderate-income programs)	At least 46.0%	At least 17.5%	At least 20.0%	At least 20.0%
Renewable and clean energy programs; energy-related public education and outreach; and climate change programs	Up to 10.5%	At least 6.5%	At least 20.0%	At least 20.0% *(add resiliency)*
Administrative expenses (MEA)	Up to 3.5%, but no more than $4.0 million	Up to 3.0%, but no more than $4.0 million	Up to 10.0%, but no more than $4.0 million	Up to 10.0%, *but no more than $5.0 million*

BRFA: Budget Reconciliation and Financing Act
MEA: Maryland Energy Administration
RGGI: Regional Greenhouse Gas Initiative

Note: Although the allocation under the BRFA of 2009 was amended by the BRFA of 2010 to expend the allocation until June 30, 2012, the BRFA of 2011 superseded the extension.

Source: Section 9-20B-05(g) of the State Government Article; Chapters 127 and 128 of 2008; Chapter 487 of 2009; Chapter 397 of 2011

Fiscal 2016 Allowance Revenue Distribution

Exhibit 7 compares the fiscal 2016 allowance with the RGGI revenue distribution required in current law. The fiscal 2016 allowance, with the exception of energy assistance, provides a higher level of spending than revenue estimates would allow as a result of available fund balances. In the future, as funding balances are drawn down, spending from RGGI revenue will need to be limited to the revenue received during the fiscal year.

Exhibit 7
Fiscal 2016 Allowance Compared to Required RGGI Distribution
($ in Millions)

	2016 Allowance	Distribution as Determined by Statue		Planned Revenue Allocation	If Excess Revenue Is Reallocated Between All Accounts	Difference Between Planned Allocation and Reallocation Between All Accounts
Energy Assistance	**$34.8**	**At least 50%**	**$39.7**	**$39.7**	**$41.4**	**-$1.6**
DHR	$34.8					
Residential Rate Relief	**$0.0**	**0%**				
Low- and Moderate-income Energy Efficiency	**$12.1**	**At least 10%**	**$7.9**	**$8.7**	**$8.3**	**$0.4**
MEA	$10.6					
DHCD	1.5					
Energy Efficiency, All Other Sectors	**$8.9**	**At least 10%**	**$7.9**	**$8.7**	**$8.3**	**$0.4**
MEA	$5.8					
DHMH	3.2					
Renewable Energy, Climate Change, Resiliency, Energy Education	**$20.1**	**At least 20%**	**$15.9**	**$17.4**	**$16.5**	**$0.8**
MEA	$17.3					
MDE	2.8					

	2016 Allowance	Distribution as Determined by Statue		Planned Revenue Allocation	If Excess Revenue Is Reallocated Between All Accounts	Difference Between Planned Allocation and Reallocation Between All Accounts
Administration	**$5.4**	**No more than $5.0 million, up to 10%**	**$5.0**	**$5.0**	**$5.0**	**$0.0**
MEA	$5.0					
DGS (Salaries) Energy Office	0.4					
Excess Administration Revenue Beyond Cap Available for Redistribution			*$2.9*			

DGS: Department of General Services
DHCD: Department of Housing and Community Development
DHMH: Department of Health and Mental Hygiene
DHR: Department of Human Resources
MDE: Maryland Department of the Environment
MEA: Maryland Energy Administration
RGGI: Regional Greenhouse Gas Initiative

Note: Excludes funds for RGGI dues from the allocation provided to the Maryland Department of the Environment (MDE). The total fiscal 2016 allowance for MDE from the SEIF is $3.2 million.

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

Under current law, the administrative allocation is up to 10% but no more than $5.0 million (previously $4.0 million). In recent years, as that cap has been met, the excess revenue had been redistributed among the energy efficiency allocations and renewable energy. The energy assistance allocation did not receive any of this excess revenue in the past because of the limitation in the statute allowing for energy assistance to receive up to 50%. The BRFA of 2014 changed the energy assistance allocation to at least 50%. This change, in addition to guaranteeing that the energy assistance allocation would receive 50% of the revenue, would allow the energy assistance allocation to share in the redistribution of excess revenue from the administrative allocation. However, Appendix T in the Governor's budget books indicates that the current revenue allocation plan in fiscal 2015 and 2016 does not provide the energy assistance allocation a share of the excess revenue. The estimated impact of this plan is shown in Exhibit 7. A similar, but smaller, impact from this decision also occurs in fiscal 2015. **MEA should comment on why given the change in the allocation, which should allow the energy assistance allocation to share in the redistribution, the current plan does not provide any of the redistribution to the energy assistance allocation.**

Exhibit 8 compares the fiscal 2016 allowance with the fiscal 2015 working appropriation from the SEIF. This comparison excludes funds from the Offshore Wind Development Fund, Customer Investment Fund, and funds available from a settlement budgeted as the SEIF. In total, the fiscal 2016 allowance for the SEIF is $9.9 million lower than the fiscal 2015 working appropriation primarily due to a lower use of the fund balance to support the allowance than in fiscal 2015 and one-time (or limited time) expenses in fiscal 2015.

Exhibit 8
Fiscal 2016 Allowance Compared to Fiscal 2015 Working Appropriation

	2015 Working Appropriation*	2016 Allowance	Change
Energy Assistance	**$37,151,302**	**$34,793,885**	**-$2,357,417**
Department of Human Resources	$37,151,302	$34,793,885	-$2,357,417
Residential Rate Relief	**$0**	**$0**	**$0**
Low- and Moderate-income Energy Efficiency	**$11,830,614**	**$12,105,000**	**$274,386**
Maryland Energy Administration	$10,605,000	$10,605,000	$0
Department of Housing and Community Development	1,225,614	1,500,000	274,386
Energy Efficiency and All Other Sectors	**$10,230,629**	**$8,902,441**	**-$1,328,188**
Maryland Energy Administration	$5,250,000	$5,750,000	$500,000
Department of Health and Mental Hygiene	3,480,629	3,152,441	-328,188
Department of Housing and Community Development	1,500,000	0	-1,500,000
Renewable Energy and Climate Change	**$26,114,710**	**$20,543,521**	**-$5,571,189**
Maryland Energy Administration	$22,814,710	$17,300,000	-$5,514,710
Maryland Department of the Environment	3,300,000	3,243,521	-56,479
Administration	**$6,332,049**	**$5,449,843**	**-$882,206**
Maryland Energy Administration	$5,907,224	$5,022,915	-$884,309
Department of General Services (Salaries) Energy Office	424,825	426,928	2,103
Total	**$91,659,304**	**$81,794,690**	**-$9,864,614**

RGGI: Regional Greenhouse Gas Initiative

*Includes a proposed deficiency appropriation of $300,000 in the Maryland Department of the Environment (MDE) for climate change activities.

Note: The fiscal 2015 working appropriation for the Energy Efficiency, All Other Sectors for the Department of Housing and Community Development (DHCD) ($1.5 million) assumes a transfer from the Maryland Energy Administration (MEA). The funds are restricted for this purpose in the fiscal 2015 budget bill. DHCD advises that this transfer is not planned. The funding for the Maryland Department of the Environment includes funds from RGGI dues, which are excluded from the statutory allocation and not shown in Exhibit 7.

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

Fund Balance

The increase in revenue from the program changes was not anticipated in the fiscal 2013 or 2014 budgets and, as a result, the higher than anticipated revenue in fiscal 2013 largely accrued in the SEIF fund balance. In fiscal 2014, budget amendments and deficiency appropriations used a portion of the available fund balances to support a variety of programs in MEA, the energy assistance programs in the Department of Human Resources (DHR), and energy performance contracts in the Department of Health and Mental Hygiene. Despite this, the SEIF fund balance at the close of fiscal 2014, was $61.6 million, as shown in **Exhibit 9**, excluding the Offshore Wind Development Fund and Alternative Compliance Payments.

A portion of the fiscal 2014 fund balance is expected to be used in fiscal 2015 to support planned program expenditures in that year. After accounting for planned spending and current fiscal 2015 revenue estimates, the available balance at the close of fiscal 2015 would be $37.6 million. Of the $37.6 million, $13.3 million would be available from the energy efficiency, renewable energy, and administration accounts and $24.3 million from the energy assistance account. As noted previously, the fiscal 2015 revenue estimates appear to understate the revenue that will be available in that year, and, therefore, the fund balances are likely to be higher than are currently estimated by MEA. A transfer of funds, restricted from MEA's fiscal 2015 appropriation to be used in DHCD, is no longer planned. As a result, an additional $1.5 million will be available in the Energy Efficiency, All Other Sectors fund balance.

Exhibit 9
Strategic Energy Investment Fund Balance
Fiscal 2014-2015
($ in Millions)

	2014 Closing Fund Balance	2015 Estimated Closing Fund Balance*	2016 Estimated Closing Fund Balance
Energy Efficiency and Conservation Programs, Low- and Moderate-income Sector	$7.1	$3.1	-$0.3
Energy Efficiency and Conservation Programs and All Other Sectors	5.5	2.3	3.6
Renewable Energy, Clean Energy, Climate Change, Education, and Resiliency	16.5	4.9	2.2
Administration	4.3	2.9	2.5
Subtotal of SEIF for No Energy Assistance/Rate Relief Activities Without Transfer Proposed	**$33.4**	**$13.3**	**$8.0**
Cancellation for Restricted Funds Not Expected to Be Used (Energy Efficiency and Conservation Programs and All Other Sectors)		$1.5	
Proposed Transfer		-6.0	
Subtotal of SEIF for Non-energy Assistance/Rate Relief Activities with Proposed Transfer	***$33.4***	***$8.8***	***$2.0***
Rate Relief	$0.1	$0.1	$0.1
Energy Assistance	28.2	24.3	29.2
Total	**$61.6**	**$33.1**	**$31.3**

*Includes a proposed deficiency appropriation of $300,000 in the Maryland Department of the Environment (MDE) for climate change activities.

Note: The fund balance for fiscal 2015 and 2016 does not match Appendix T of the Governor's Budget Books to more accurately reflect appropriation and planned transfer levels and funds inadvertently shown, which are from a settlement rather than Regional Greenhouse Gas Initiative auction proceeds. Excludes funds in MDE appropriation, which are for RGGI dues. Does not include Renewable Portfolio Standard balance and Offshore Wind Development balance, which are only available for specific purposes. Estimated revenue is based on actual auction results in September and December 2014 and projected results for six auctions.

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

The BRFA of 2015 includes a transfer of $6.0 million from the SEIF balance. After accounting for the proposed transfer, the SEIF balance at the close of fiscal 2015 would be $33.1 million, as shown in Exhibit 9. The Administration has yet to indicate which portion of the fund balance from which the transfer will occur. As discussed, the current fiscal 2016 spending plan assumes the use of portions of the fiscal 2015 closing balance. Based on the fiscal 2016 revenue estimates and spending plans, the closing fiscal 2016 balance is estimated at $31.3 million accounting for the transfer. The largest share of the fund balance is in the energy assistance account. However, energy assistance remains an important safety net program. If the transfer were to occur from a combination of the energy efficiency, renewable energy, and administration accounts, the estimated closing fiscal 2016 fund balance for these accounts would be approximately $2.0 million. Fiscal 2016 spending plans could also be adjusted if the agency is interested in maintaining a larger fund balance**. DLS recommends language be added to the BRFA of 2015 to clarify that the transfer occur from accounts other than the energy assistance account, such as administration, energy efficiency, and renewable energy.**

2. Public Service Commission Order Provides Funds for Energy Efficiency and Clean Energy

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 proposed to construct the electric generating station to provide electricity for the facility which would be expanded to allow for both import and export of LNG. DCP, at the time, was seeking approval from the Federal Energy Regulatory Commission (FERC) to expand the facility to allow for exporting of LNG. The electric generating station was not expected to be connected to the State electric grid and would serve only the needs of the facility.

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 general, air quality, terrestrial and aquatic ecology, stormwater management/erosion and sediment control, water supply, cultural resources, visual quality, emergency preparedness and security, traffic, noise, and other. These conditions include FERC approval of the export facility and that all FERC conditions for the expansion of the facility allow for exporting to be met.

In the order, the PSC notes that the electric generating station would not be connected to the grid and would therefore be exempt from the RGGI auction process. As such, PSC notes that there is no economic or environmental benefits from purchasing RGGI allowances and, in fact, there would be a loss of set-aside allowances in the program. PSC estimates that because the project is not part of RGGI revenue from compliance costs from the in-service date through 2020, nearly $16.0 million would not be available to the State. PSC estimates total costs to ratepayers of potentially in excess of $75.0 million by 2025. Therefore, in total, there are not sufficient economic and other benefits to grant a CPCN. To provide sufficient benefits, PSC chose to order a $40.0 million contribution (in increments of $8.0 million per year) to the SEIF, in addition to a required contribution to the Maryland Energy Assistance Program in DHR or other low-income energy assistance programs. The first installment of the contribution to the SEIF are to be contributed within 90 days of the commencement of construction. The funds may be used 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.

PSC required DCP to provide notice in writing within 10 days of the order whether it would accept or reject the conditions in the order. On June 9, 2014, DCP submitted written notification of its acceptance of the conditions. DCP has continued to submit documents, including the notice of FERC approval and the FERC approval order, as required under the conditions. Construction began in October 2014. As a result, MEA anticipates that funds would begin to be available in early calendar 2015. MEA has not yet developed plans for this funding. **MEA should comment on how it will determine the use of the funds, a planned timeline for making this determination, and when the funds will be appropriated.**

Recommended Actions

		Amount Reduction		Position Reduction
1.	Delete the position for Governor's Energy Advisor (PIN 002055) because the position is duplicative. A portion of the role of the Maryland Energy Administration (MEA) is to advise the Governor on a variety of energy matters. The director of MEA should serve as the energy advisor. This position has been vacant since June 2013.	$ 90,916	SF	1.0
2.	Delete a position created outside of the Rule of 100 because the grant funds have ended. One position (PIN 088568) was created in a Board of Public Works action in September 2012. The position was created outside of the Rule of 100 in fiscal 2013 because a federal grant (referred to as Advancing Energy Efficiency in Public Buildings) was being used to support the position. Positions created outside of the Rule of 100 are required to be abolished after the fund source is no longer available. The grant funds end in fiscal 2015, but the position is not abolished. The fiscal 2016 allowance funds the position from the Strategic Energy Investment Fund. The position is filled, but the individual could be moved into a vacant PIN within the agency.	88,075	SF	1.0

3. Adopt the following narrative:

Program Specific Managing for Results Measures: The Maryland Energy Administration's (MEA) Managing for Results (MFR) submission currently focuses largely on measures of State energy policy. The MFR measures progress in meeting EmPOWER Maryland goals, increasing renewable energy in service, and alternative fuel vehicle use. Although there are a couple of measures of program activity related to MEA's pay-as-you-go programs, the MFR's otherwise do not reflect activities of the agency. With several years of experience with programs funded by the Strategic Energy Investment Fund, MEA should begin tracking performance in these programs. The budget committees request MEA begin reporting performance related to agency programs and activities along with progress towards State energy goals in its annual MFR submission beginning with the fiscal 2017 budget books.

Information Request	Author	Due Date
Performance measures related to agency activities and programs	MEA	With submission of the fiscal 2017 budget books

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 allowances to the General Assembly in conjunction with the submission of the fiscal 2017 budget and annually thereafter as an appendix to the Governor's budget books. This report shall include information for the actual fiscal 2015 budget, fiscal 2016 working appropriation, and fiscal 2017 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 used 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:

(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

(7) transfers made to other funds.

Explanation: This language requires the Department of Budget and Management (DBM) to include as an appendix in the Governor's budget books for fiscal 2017 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. This language is similar to language included in prior budget bills.

Information Request	**Author**	**Due Date**
Report on revenue assumptions and use of RGGI auction revenue	DBM	With submission of the Governor's fiscal 2017 budget books and annually thereafter

Total Special Fund Reductions	**$ 178,991**	**2.0**

Updates

1. EmPOWER Maryland

Chapter 131 (the EmPOWER Maryland Energy Efficiency Act of 2008), known as EmPOWER Maryland, established goals of a 15% per capita reduction in peak demand and a 15% per capita reduction in energy consumption by 2015. Chapter 131 required MEA, in consultation with PSC, to submit two reports in December 2012, on topics including whether these targets should be set beyond calendar 2015. Among other recommendations, MEA recommended continuing to set energy efficiency and peak demand reduction goals.

MEA Planning Activities

Since calendar 2013, MEA and PSC have undertaken activities to move toward the next phase of EmPOWER Maryland, the period after the initial goal. In calendar 2014, MEA continued with workgroup processes and study activities that began in calendar 2013. In August 2014, MEA submitted the final products of some of these activities including an avoided cost study and cost effectiveness framework to PSC. A third study (of the statewide energy efficiency potential) is expected to be completed in February 2015.

In September 2014, MEA submitted to PSC a series of policy and program recommendations. The policy recommendations were to:

- formally expand EmPOWER Maryland to natural gas customers and customers of all municipal and cooperatives (many of which were previously exempt);
- institute performance-based shareholder incentives for meeting or exceeding energy efficiency goals;
- improve the evaluation, measurement, and verification process;
- create a commercial and industrial ombudsman at PSC; and
- expand access to affordable financing for residential customers.

Also in this filing, MEA asked that:

- PSC clarify its intent to establish utility-specific goals for natural gas and electric utilities in a future proceeding as soon as possible;
- PSC establish that utility-specific goals should be informed by the potential study;

- PSC communicate to utilities appropriate budgets and bill impacts;

- PSC document policy objectives for long-term savings and use those in setting the three-year program cycle targets;

- PSC should make savings goals mandatory and establish incentives for exceptional efforts by utilities; and

- PSC approve sufficient funding for programs to meet the targets.

MEA also suggested a timeline for the planning of the next phase. Under the timeline, comments for establishing EmPOWER goals for 2016 and beyond would be submitted in winter 2014, PSC would set utility-specific goals in early 2015, and the utilities would submit supplemental 2016 and 2017 plan filings in spring 2015. PSC reviewed the planning documents as part of its hearing in October 2014, at which time PSC also heard utility filings for the next three-year period.

PSC Activities

During calendar 2014, the electric utilities (Baltimore Gas and Electric (BGE), Delmarva Power & Light, Pepco, The Potomac Edison Company, and Southern Maryland Electric Cooperative, Inc.) and DHCD submitted the next set of three-year plans under EmPOWER Maryland (2015-2017). The prior plans covered the 2012 to 2014 period, so approval was required prior to the end of calendar 2014 to continue activities. In December 2014, PSC generally approved the new three-year plans by the companies, however, some were modified. PSC also only authorized DHCD to continue to implement the limited income program for calendar 2015.

On August 29, 2014, Washington Gas Light Company (WGL) submitted a suite of natural gas energy efficiency programs to PSC for approval. These programs focused on residential and commercial water heating, residential and commercial space heating, commercial boilers, commercial food service equipment, and customer conservation behavior. PSC considered WGL's proposed programs along with the electric utilities already required to participate in EmPOWER Maryland. PSC approved WGL's proposals with some modifications and ordered the creation of a Natural Gas-Electric Efficiency Coordination Workgroup.

As part of its December 2014 order to approve the utility programs, PSC directed that PSC staff, on behalf of the EmPOWER Planning Workgroup, file a report and recommendations related to the MEA proposal to implement performance-based shareholder incentives by April 15, 2015. PSC also ordered that a case be docketed and referred to the Hearing Examiners Division for the investigation and development of energy efficiency financing proposals, with a status report due on April 15, 2015. Finally, PSC ordered that parties file proposed goal allocation methodologies by no later than January 30, 2015. PSC also noted that it would discuss those goal allocation methodology proposals along with cost-effectiveness screening methodologies in February 2015 hearings.

On February 12 and 13, 2015, PSC held hearings on the cost-effectiveness screening methodology, goal setting methodology, and the DHCD programs. In a filing prior to the February 2015 hearings, MEA noted that a number of answers to developing the cost-effectiveness screening and goal setting methodology could be answered by determining the policy focus. For example, if energy efficiency is viewed to benefit society as a whole, then calculations of cost-effectiveness should include certain nonenergy benefits. In this filing, MEA also made several recommendations related to the goal setting process including that new goals be (1) utility-specific; (2) set at the utility level with minimum thresholds for various sectors; (3) set for three years, with longer term targets; (4) updated every three years; and (5) set from the bottom up (focused on program savings).

Activity is likely to continue throughout calendar 2015 to determine goals beyond calendar 2015 and any changes that may be necessary to the current utility programs as a result of the changed goals.

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 initiative including:

- reviewing the structure and organization of green banks and clean bank financing initiatives established in other states;
- examining the method of capitalization of established green banks and clean bank financing initiatives;
- examining the sources, type, and amount of private capital leveraged or invested in connection with the establishment of a green bank or clean bank financing initiative;
- reviewing the financial services provided by existing green banks and clean bank financing initiatives;
- reviewing the need to provide low-cost financing to clean energy, renewable energy, and energy efficiency projects; consider whether to warehouse and securitize clean energy, renewable energy, and energy efficiency financing instruments; and review any other gaps in the availability of financing for clean energy, renewable energy, and energy efficiency projects in the State;
- reviewing the impact of existing Maryland financial programs on the renewable and energy conservation industries; and
- consider any other relevant information that MCEC or MEA determines appropriate.

Based on this analysis, MCEC in collaboration with MEA is to make recommendations on (1) the need for a green bank in the State; (2) the scope; (3); possible sources of capital; (4) the best 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 is due on December 1, 2015.

The interim report was conducted by The Cadmus Group, Catalyst Financial Group, Center for Climate and Energy Solutions, and the National Association of State Energy Officials for MCEC. The interim report focuses on background material and identifying opportunities for a green bank in Maryland, but does not make specific recommendations. The recommendations regarding a green bank in Maryland are expected in the final report.

Definition

In the report, green bank was defined as "…a financial organization that uses strategic public-private partnerships to overcome market barriers and increase the amount of private capital available to finance clean energy projects." According to the report, a green bank is ultimately unique to the state in which it operates, and its function can be designed to meet state goals, the state energy market, the other entities that offer clean energy project financing, and support for the program. Common characteristics of green banks listed in the report are leveraging public and private funds, developing self-sustaining programs that have a long-term goal of moving entirely to the private sector, and increasing available capital. The report described three benefits of green banks: (1) overcoming market weaknesses and building confidence in the private sector; (2) gathering data about technology and financial performance to increase confidence by the private sector; and (3) having an ability to tailor program offerings to meet state and customer needs and priorities.

Four models for a green bank were described:

- quasi-public organization – used in Connecticut – consolidates several funding sources into one organization;
- state clean energy financing authority – used in New York and Hawaii – housed within a state or local agency but uses outside stakeholders to increase access to capital;
- infrastructure bank – used in New Jersey – combining an infrastructure bank with a state energy authority to finance projects; and
- nonprofit community development financial institution – independent organization offering a suite of financial programs that are self-sustaining.

Existing State Models for Green Banks

The Connecticut Green Bank has its roots in a previous state-created entity (Connecticut Clean Energy Fund). The Connecticut Green Bank is funded by a systems benefits charge, RGGI proceeds, federal funds, and private capital from investors and others. The Connecticut Green Bank offers residential and commercial solar leasing, residential loans (for energy efficiency, fuel conversion, and renewable energy) that includes a loan loss reserve and interest rate buydown, commercial property assessed clean energy program, and community micro-grants.

The Hawaii Energy Market Securitization program was scheduled to begin operation in December 2014. The program is designed to focus on renters, nonprofits, and homeowners without other access to conventional financing. The program financing will come from (1) rate reduction bonds backed by a utility bill surcharge levied on utility customers offsetting a reduction in an existing public benefit fee; and (2) on-bill repayment by customers receiving loans. The program will focus initially on solar but is expected to eventually support a wider range of energy efficiency and clean energy activities.

The New Jersey Energy Resilience Bank was proposed in March 2014 and is focused on grant and loans (including forgivable loans) for projects to make New Jersey infrastructure more resilient (including renewable energy) and must be able to operate in an island fashion and have blackstart ability (ability to start without a connection to the electric grid). The bank is funded using Community Development Block Grant disaster recovery funds.

The New York Green Bank, created in calendar 2013, has several policy objectives including providing a bridge to self-sustaining financing markets, leveraging private-sector capital, increasing the amount of clean energy deployed, animating capital markets for the clean energy center, and spurring economic development and clean energy jobs. The program has been capitalized through utility bill surcharges and RGGI proceeds.

The report also described a number of programs that it describes as having green bank functions, although the report treats them as distinct from green banks. The California Alternative Energy and Advanced Transportation Financing Authority, funded through the state budget and program fees, operates programs that include a loan loss reserve for residential energy efficiency and renewable energy projects, a loan loss reserve program for PACE programs, and a program for energy financing pilots for multiple sectors. A state-chartered nonprofit entity in Oregon named Clean Energy Works acts as an intermediary for clean energy financing. The Florida Solar and Energy Loan Fund is a nonprofit community development finance institution that targets underserved regions with residential and small commercial loans for clean energy improvements and does not receive state funds.

Existing Maryland Programs

The report then describes a number of existing programs in Maryland, both loans and grants, at various organizational levels. These programs include:

- DHCD's Be SMART loan program for energy efficiency improvements for residential, multifamily, and commercial (now closed) customers;

- MEA's Jane E. Lawton Conservation Loan Program providing low-interest loans or credit enhancements to nonprofits, local governments, and businesses for energy efficiency;

- MEA's State Agency Loan Program providing zero interest loans to State agencies for energy efficiency;
- energy performance contracts at the State level primarily run through the Department of General Services with energy efficiency improvements paid through energy savings;
- MCEC's Maryland Clean Energy Capital Program providing energy efficiency improvements at nonprofits, local governments, universities, schools, and hospitals through MCEC-issued bonds that are repaid through energy savings;
- MCEC's Maryland Home Energy Loan Program providing loans for residential energy efficiency improvements;
- DHCD's Multifamily Portfolio Energy Retrofit CIF program providing loans for energy efficiency improvements to affordable multifamily properties in the BGE service territory;
- MEA's Maryland Smart Energy Communities Program providing grants to local governments for projects related to meeting certain goals; and
- the BGE and Pepco Small Business Energy Advance pilot programs providing on-bill financing for small business energy efficiency programs.

Market Barriers and Financing Gaps

As part of the study, stakeholder meetings and surveys were used to identify market barriers and financing gaps from the perspective of financial institutions, contractors, utilities, municipalities, consumer advocacy groups, and entrepreneurs/business leaders. Each stakeholder group identified a number of different barriers or financing gaps. Some were mentioned by multiple groups including:

- small commercial funding – project sizes were too small to interest lenders;
- need for technical assistance and education;
- low- and moderate-income residential funding – those groups who do not qualify for weatherization but may not be able to receive traditional financing;
- split incentives – impacting renters of all types (including nonprofit and small commercial) because the renter pays the utility bill, and the landlord has no incentive to complete work, or renters are uninterested because they could move;
- technology issues – some technologies are easier to finance than others (*e.g.,* mainstream technologies are easier than new technologies);

- need for a one-stop-shop to coordinate financing; and

- debt constraints and the desire for off-balance sheet options.

The report also highlighted the potential for improvement in standardization among contracts, such as power purchasing agreements, that could be made and reduce risk. The report also noted a funding gap for small municipal projects. The study concludes that there is unmet investment need and that there are financing gaps in Maryland. The final report will discuss the framework needed to establish a green bank, including goals and performance measures, possible sources of capital, and the means for establishing the green bank.

Appendix 1

Current and Prior Year Budgets

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

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2014					
Legislative Appropriation	$0	$26,180	$793	$141	$27,113
Deficiency Appropriation	0	-48	-13	0	-60
Budget Amendments	0	23,959	474	121	24,555
Reversions and Cancellations	0	-4,526	-27	-137	-4,689
Actual Expenditures	**$0**	**$45,566**	**$1,227**	**$125**	**$46,918**
Fiscal 2015					
Legislative Appropriation	$0	$57,794	$795	$145	$58,734
Cost Containment	0	0	0	0	0
Budget Amendments	0	4,282	571	0	4,853
Working Appropriation	**$0**	**$62,076**	**$1,366**	**$145**	**$63,587**

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

MEA's fiscal 2014 expenditures were approximately $19.8 million higher than the legislative appropriation. Special fund expenditures of MEA were $19.4 million higher than the legislative appropriation. Special funds increased by approximately $24.0 million by budget amendment largely due to higher than expected revenue from RGGI auctions. That revenue was used to:

- transfer the new Commercial and Industrial Deep Energy Retrofit Grant program, Maryland Emergency Generation Grant program, and electric vehicle charging stations at Maryland Area Regional Commuter and Metrorail stations program from pay-as-you-go programs using general funds to operating programs using special funds ($7.2 million);

- increase funding for the low- and moderate-income community grant program including adding a statewide competitive grant ($7.0 million);

- expand the Clean Energy Grant Program to add solar canopy on parking lots and community wind components ($3.2 million);

- increase funding for the Maryland Smart Energy Communities program ($2.5 million);

- complete technical/economic feasibility studies related to siting for distributed energy resources for grid resiliency, a program for solar siting on brownfield sites, and a program for solar water heating at correctional facilities ($1.6 million);

- add funding for the Mathias Agricultural Energy Efficiency program ($1.2 million);

- add funding to conduct a pilot consistent with Chapter 625 of 2013 related to Regulated Sustainable Energy contracts ($400,000);

- add funding for building energy code compliance training and technical assistance ($346,959);

- add funding for communications and marketing ($300,000); and

- add funding for 4 new regular positions and 2 new contractual full-time equivalents related to the administration of the new and expanded programs ($233,750).

The remaining increases are related to employee compensation changes including the cost-of-living adjustment (COLA) provided to State employees in January 2014 ($30,952) and increments provided in April 2014 ($11,813).

These increases in special funds are partially offset by deficiency appropriations that reduced funding for the retirement reinvestment ($35,679) and health insurance ($11,928) and cancellations totaling $4.5 million. The cancellations included delays in the MOWBDF while awaiting the recommendations of the advisory committee, the Emergency Generation Program which did not receive the anticipated level of interest, delays in awarding contracts for the solar energy studies, and delays in awarding funds as anticipated program changes were pending.

MEA's fiscal 2014 federal fund expenditures were $434,552 higher than the legislative appropriation. Federal funds increased by $474,173 by budget amendment as a result of:

- higher than expected State Energy Program funds and available Energy Efficiency and Conservation Block Grant (EECBG) funds to support salary and wages ($112,367);
- available EECBG to support lighting upgrades by the Department of General Services ($120,000);
- available Priority Wind Outreach funds to purchase remote sensing instruments for community wind project assessment and for other services related to community wind projects ($83,100);
- funds available to provide technical assistance for local public housing authority agencies to enter into energy performance contracts ($80,000);
- remaining funds from the second phase of the Save Energy Now grant related to industrial energy efficiency ($70,000); and
- employee compensation changes including the federal share of the fiscal 2014 COLA ($8,301) and employee increments ($405).

These increases are partially offset by the federal fund share of the reductions for retirement reinvestment ($9,541) and health insurance ($3,165) and cancellations totaling $26,915. The cancellations occurred in the Advancing Energy Efficiency in Public Buildings grant and unavailable EECBG funds.

MEA's fiscal 2014 reimbursable fund expenditures were $15,483 lower than the legislative appropriation. Reimbursable funds increased by $121,344 as a result of funding available from MEA for the Idle Reduction Technology Program. This increase was more than offset by cancellations totaling $136,827, primarily due to timing of the execution of grants in the Idle Reduction Technology Program and lower than expected expenditures for an Attorney General position.

Fiscal 2015

MEA's fiscal 2015 appropriation has increased by approximately $4.9 million in total funds. A portion of the increase, $27,220 ($21,613 in special funds and $5,607 in federal funds) is the result of funds provided for the fiscal 2015 COLA for State employees.

Other special fund increases are:

- additional funding for the Commercial and Industrial Sector Deep Energy Retrofit Grant program ($3.0 million);

- funds to support the MCEC ($760,000); and

- funds for outside counsel to assist in the review of the Exelon Corporation and Pepco Holdings, Inc. merger ($500,000).

Other federal fund increases totaling $565,639 occur due to:

- a new federal grant to test the relationship of building code training to increased energy compliance ($266,175);

- a federal grant to provide technical assistance to local public housing agencies related to energy performance contracts ($204,000);

- the federal clean cities grant ($50,000); and

- a higher than expected grant award from the State Energy Program ($45,464).

Object/Fund Difference Report
Maryland Energy Administration

Object/Fund	FY 14 Actual	FY 15 Working Appropriation	FY 16 Allowance	FY 15 - FY 16 Amount Change	Percent Change
Positions					
01 Regular	30.00	34.00	34.00	0.00	0%
02 Contractual	12.60	10.50	10.50	0.00	0%
Total Positions	**42.60**	**44.50**	**44.50**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 3,013,090	$ 3,600,973	$ 3,676,147	$ 75,174	2.1%
02 Technical and Spec. Fees	935,738	863,554	737,963	-125,591	-14.5%
03 Communication	53,536	76,079	88,686	12,607	16.6%
04 Travel	159,522	107,188	176,269	69,081	64.4%
07 Motor Vehicles	33,494	4,570	890	-3,680	-80.5%
08 Contractual Services	8,995,934	23,798,439	9,499,737	-14,298,702	-60.1%
09 Supplies and Materials	23,095	24,000	24,101	101	0.4%
10 Equipment – Replacement	5,902	17,710	6,140	-11,570	-65.3%
11 Equipment – Additional	23,801	0	8,846	8,846	N/A
12 Grants, Subsidies, and Contributions	33,066,404	33,931,804	31,894,160	-2,037,644	-6.0%
13 Fixed Charges	467,734	403,026	509,194	106,168	26.3%
14 Land and Structures	140,000	760,000	0	-760,000	-100.0%
Total Objects	**$ 46,918,250**	**$ 63,587,343**	**$ 46,622,133**	**-$ 16,965,210**	**-26.7%**
Funds					
03 Special Fund	$ 45,565,992	$ 62,076,039	$ 45,420,470	-$ 16,655,569	-26.8%
05 Federal Fund	1,227,153	1,366,150	1,067,210	-298,940	-21.9%
09 Reimbursable Fund	125,105	145,154	134,453	-10,701	-7.4%
Total Funds	**$ 46,918,250**	**$ 63,587,343**	**$ 46,622,133**	**-$ 16,965,210**	**-26.7%**

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

Fiscal Summary
Maryland Energy Administration

Program/Unit	FY 14 Actual	FY 15 Wrk Approp	FY 16 Allowance	Change	FY 15 - FY 16 % Change
01 General Administration	$ 5,536,181	$ 7,706,190	$ 6,787,440	-$ 918,750	-11.9%
06 Energy Efficiency and Conservation Programs, Low and Moderate Income Residential Sector	10,447,691	10,809,000	10,692,948	-116,052	-1.1%
07 Energy Efficiency and Conservation Programs, All Other Sectors	13,805,458	12,923,653	9,231,182	-3,692,471	-28.6%
08 Renewable and Clean Energy Programs and Initiatives	17,128,920	32,148,500	19,910,563	-12,237,937	-38.1%
Total Expenditures	**$ 46,918,250**	**$ 63,587,343**	**$ 46,622,133**	**-$ 16,965,210**	**-26.7%**
Special Fund	$ 45,565,992	$ 62,076,039	$ 45,420,470	-$ 16,655,569	-26.8%
Federal Fund	1,227,153	1,366,150	1,067,210	-298,940	-21.9%
Total Appropriations	**$ 46,793,145**	**$ 63,442,189**	**$ 46,487,680**	**-$ 16,954,509**	**-26.7%**
Reimbursable Fund	$ 125,105	$ 145,154	$ 134,453	-$ 10,701	-7.4%
Total Funds	**$ 46,918,250**	**$ 63,587,343**	**$ 46,622,133**	**-$ 16,965,210**	**-26.7%**

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

Appendix 3