

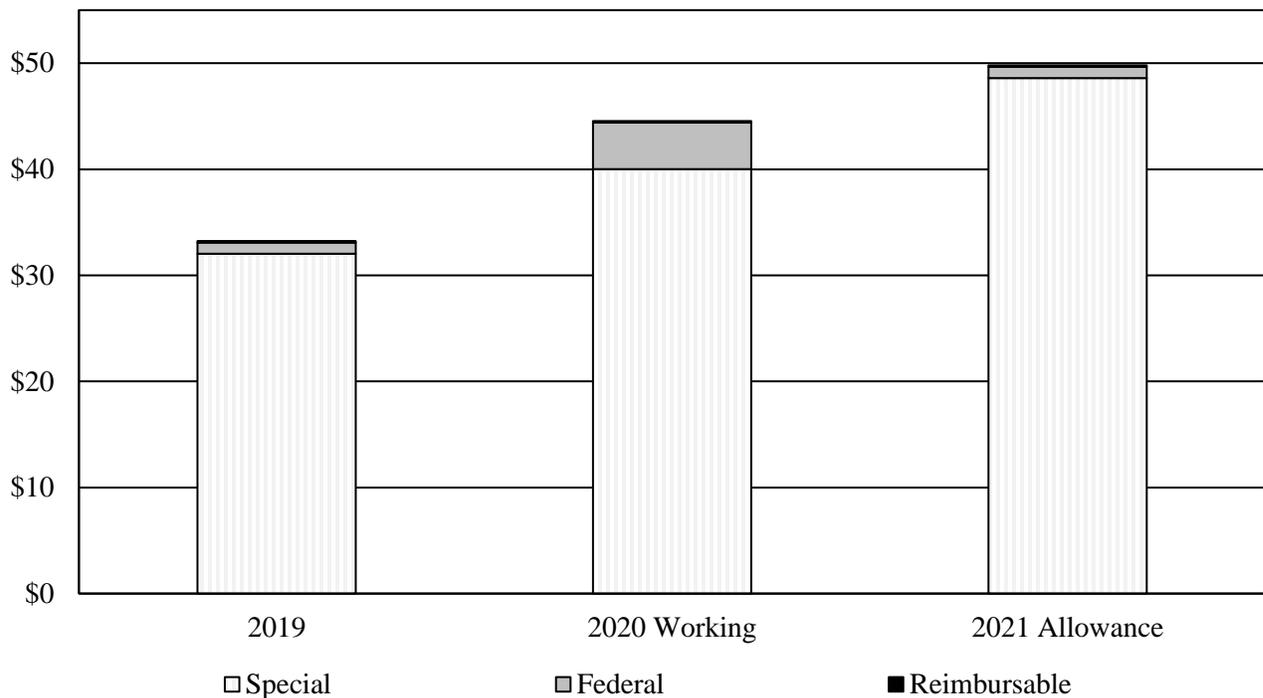
D13A13
Maryland Energy Administration

Executive Summary

The Maryland Energy Administration (MEA) is an independent unit of State government that conducts planning activities for a variety of energy sources, 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.

Operating Budget Summary

Fiscal 2021 Budget Increases by \$5.3 Million or 11.8% to \$49.8 Million
(\$ in Millions)



Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases

- Section 42 of Chapter 565 of 2019 (the Fiscal 2020 Budget Bill) reduced State funding for motor vehicle purchases with the expectation that special funds from the Strategic Energy Investment Fund (SEIF) would backfill the reduction if electric vehicles were purchased. The

budget amendment to provide this backfill is currently being processed. The fiscal 2021 allowance of MEA includes \$2.25 million to continue the State Fleet Electric Vehicle Program.

- The fiscal 2021 allowance includes \$9.1 million from the Animal Waste-to-Energy Alternative Compliance Payment resulting from the merger of the Exelon Corporation and Constellation Energy Group. This funding supports \$9.1 million of renewable and clean energy grants in MEA (approximately 50% of the funding for these grants). Following fiscal 2021, the Department of Legislative Services estimates \$2.0 million of funding will remain from this source. As a result, it is likely that significant reductions to the renewable and clean energy grants will need to occur beginning in fiscal 2022.

Key Observations

- ***Electric Vehicle Incentives:*** Two electric vehicle incentive programs were set to expire in statute in fiscal 2020 (the Electric Vehicle Excise Tax Credit and the Electric Vehicle Recharging Equipment Rebate Program). Governor Lawrence J. Hogan, Jr. has introduced legislation to alter and extend the Electric Vehicle Excise Tax Credit through fiscal 2023 and increase the maximum available credits to at least \$12 million (HB 359/SB 277). The proposed legislation also extends the Electric Vehicle Recharging Equipment Rebate program to fiscal 2023 and increases funding for the program to \$1.8 million.
- ***Maryland Clean Energy Center Funding:*** Chapters 364 and 365 of 2017 required the Maryland Clean Energy Center (MCEC) to submit a plan to be self-sustaining within five years in December 2019. MCEC’s submitted plan indicates a need for ongoing State support under both business as usual scenarios and scenarios to provide an enhanced or sustained impact. However, the Budget Reconciliation and Financing Act of 2020 proposes to end the required transfer from the SEIF to the Maryland Energy Innovation Fund, the current mechanism for State support of MCEC, after fiscal 2020 rather than fiscal 2022.

Operating Budget Recommended Actions

| | <u>Funds</u> |
|---|---------------------|
| 1. Adopt narrative requesting a report on revenues, expenditures, and fund balance in the Strategic Energy Investment Fund. | |
| 2. Reduce the deficiency appropriation to reflect available funds. | \$ 241,153 |
| Total Reductions to Fiscal 2020 Deficiency Appropriation | \$ 241,153 |

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Maryland Energy Administration

Operating Budget Analysis

Program Description

The Maryland Energy Administration (MEA) is an independent unit of State government with a mission of promoting affordable, reliable, and cleaner energy for the well-being of all Marylanders. In support of 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 the use of renewable and clean energy, and advises the Governor's office on energy policy. MEA programs affect local and State government, nonprofit organizations, residential consumers, businesses, and industrial consumers. The key goals of MEA are to:

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

Performance Analysis: Managing for Results

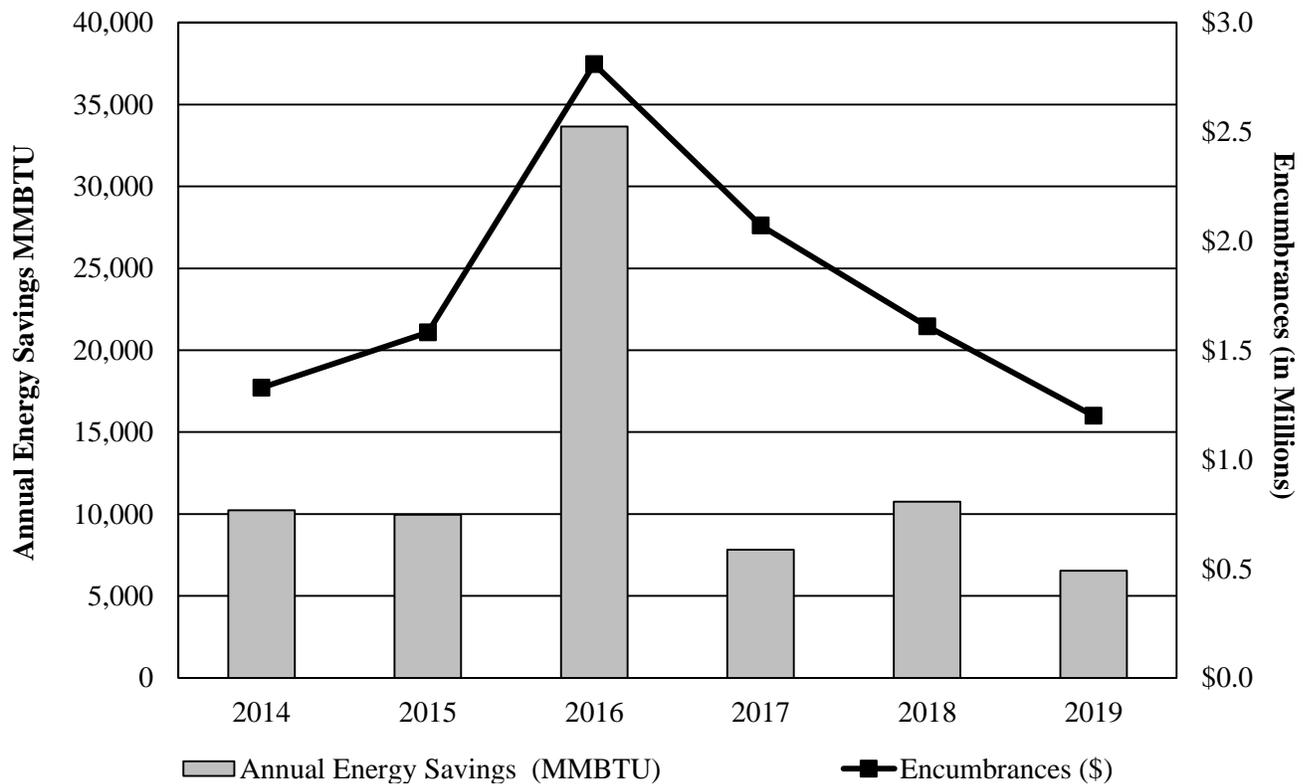
1. Energy Savings from Revolving Loan Funds Typically Follow Trends in Spending

Prior to fiscal 2020, MEA operated two revolving loan fund programs to provide loans for energy efficiency projects. The Jane E. Lawton Conservation Loan Program (JELLP) provided loans at low interest to nonprofits, businesses, and local governments, while the State Agency Loan Program (SALP) provided loans at no interest, with a 1% administrative fee, to State agencies. Chapter 135 of 2019 expanded eligible borrowers in the JELLP to include State agencies, effectively combining the two programs. State agencies continue to be eligible to receive loans at no interest. Other borrowers will continue to receive low-interest loans (2% in fiscal 2020). Combining the programs improves the efficiency of the funding by making additional funds available to State agencies in years in which there is high demand but ensuring that a portion of the funding is reserved for a part of the year for nonprofits, businesses, and local governments.

While the programs were not combined until fiscal 2020 due to the June 1 effective date of Chapter 135, for purposes of **Exhibit 1**, the encumbrances (representing loan activity) and annual energy savings have been combined historically. As shown in this exhibit, the trend of annual energy

savings typically follows the trend of encumbrances. There are outliers in some years that typically occur when energy savings from a particular project or several projects in a year are unusually high. In fiscal 2019, the combined encumbrances of the JELLP and the SALP decreased by 25%, while energy savings decreased by 39%. This decrease was driven by the JELLP, under which no funds were encumbered (loans committed to) in that year, reflecting the historic difficulties in distributing loans through this program and the reason that the programs were combined. MEA successfully encumbered all of its appropriated funding in the SALP for loans to State agencies, which would have, if shown by itself, resulted in an increase in encumbrances and energy savings compared to the prior year.

Exhibit 1
Annual Energy Efficiency Loan Program Savings versus Encumbrances
Fiscal 2014-2019



MMBTU: million British thermal units

Note: To the extent possible, encumbrances have been reduced from those originally reported based on canceled encumbrances.

Source: Maryland Energy Administration; Department of Budget and Management; Department of Legislative Services

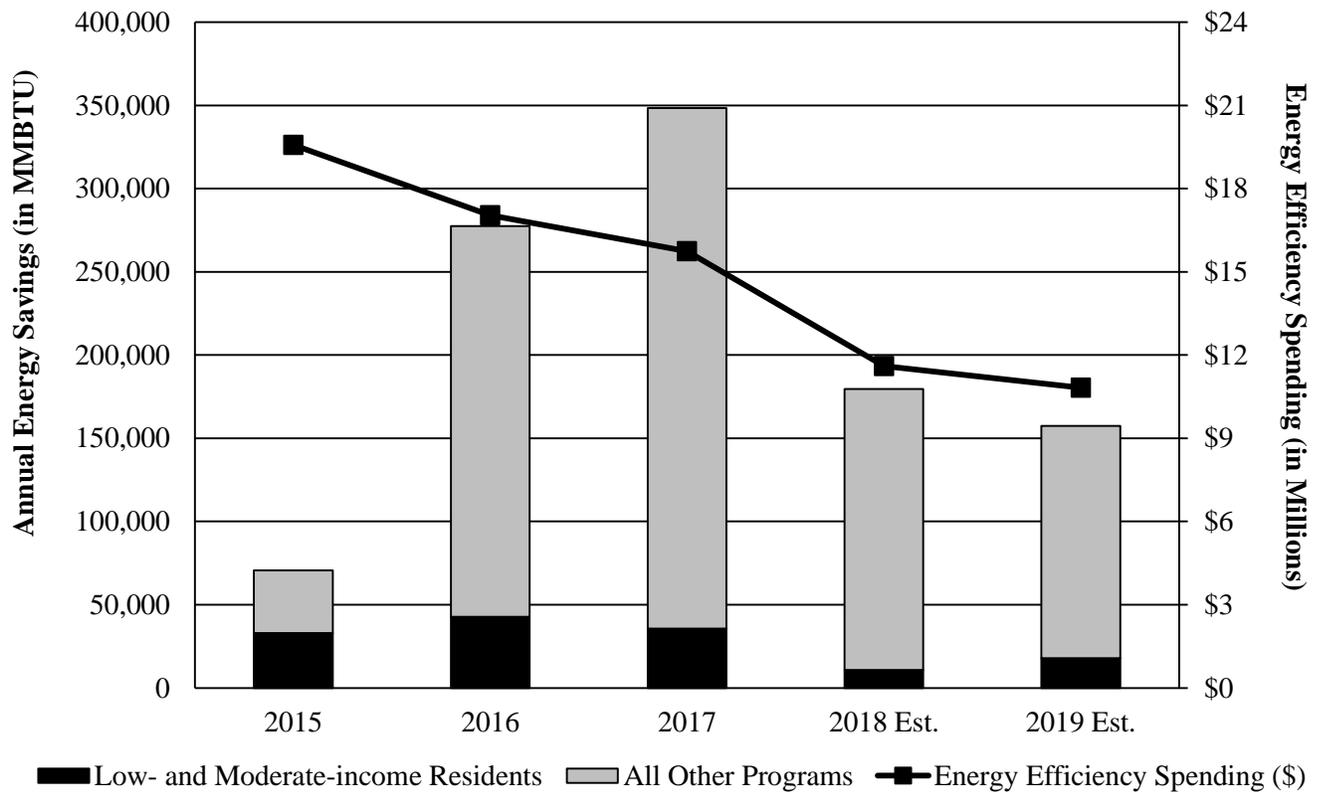
In fiscal 2020, to date, the combined JELLP program has encumbered approximately \$360,000 for three loans. However, MEA indicates that interest has been expressed for additional State agency projects totaling \$1.1 million.

2. Energy Savings from MEA Grant Programs Expected to Decrease

MEA includes two performance measures in its Managing for Results (MFR) submission related to the energy savings from energy efficiency grant programs. These measures represent savings from low- and moderate-income energy efficiency grant programs and all other energy efficiency grant programs. Because of the timing for completion of projects funded in a given year, actual energy savings are not generally known for the most recent completed year. As a result, MEA estimates energy savings for that year.

As shown in **Exhibit 2**, energy savings decreased in fiscal 2018 for both low- and moderate-income programs and all other programs. This decrease was driven by a combination of factors: (1) a decrease in energy efficiency spending due to declines in the Regional Greenhouse Gas Initiative (RGGI) carbon dioxide emission allowance auction revenue, which is the sole source of funding for low- and moderate-income energy efficiency program funding; (2) higher than normal savings in fiscal 2017 for projects funded through the Data Processing Center Energy Efficiency program and the Combined Heat and Power program; and (3) changes in the estimation of savings based on new recommendations from evaluation, measurement, and verification activities. In fiscal 2019, MEA anticipates energy savings will increase for the low- and moderate-income programs despite similar spending levels, primarily due to continued experience with the changes in the new savings estimation process. MEA anticipates a decrease of approximately 17.4% in energy savings from all other energy efficiency programs that is consistent with a decrease in spending of approximately 12.4%.

Exhibit 2
Annual Energy Savings from Energy Efficiency Grant Programs versus Spending
Fiscal 2015-2019 Est.



MMBTU: million British thermal units

Note: Data has been revised from the data presented in the 2019 session to reflect energy savings upon completion versus estimates developed prior to completion. Spending represents programs funded through the Energy Efficiency and Conservation, Low- and Moderate-Income Sector program and Energy Efficiency and Conservation, All Other Sectors program.

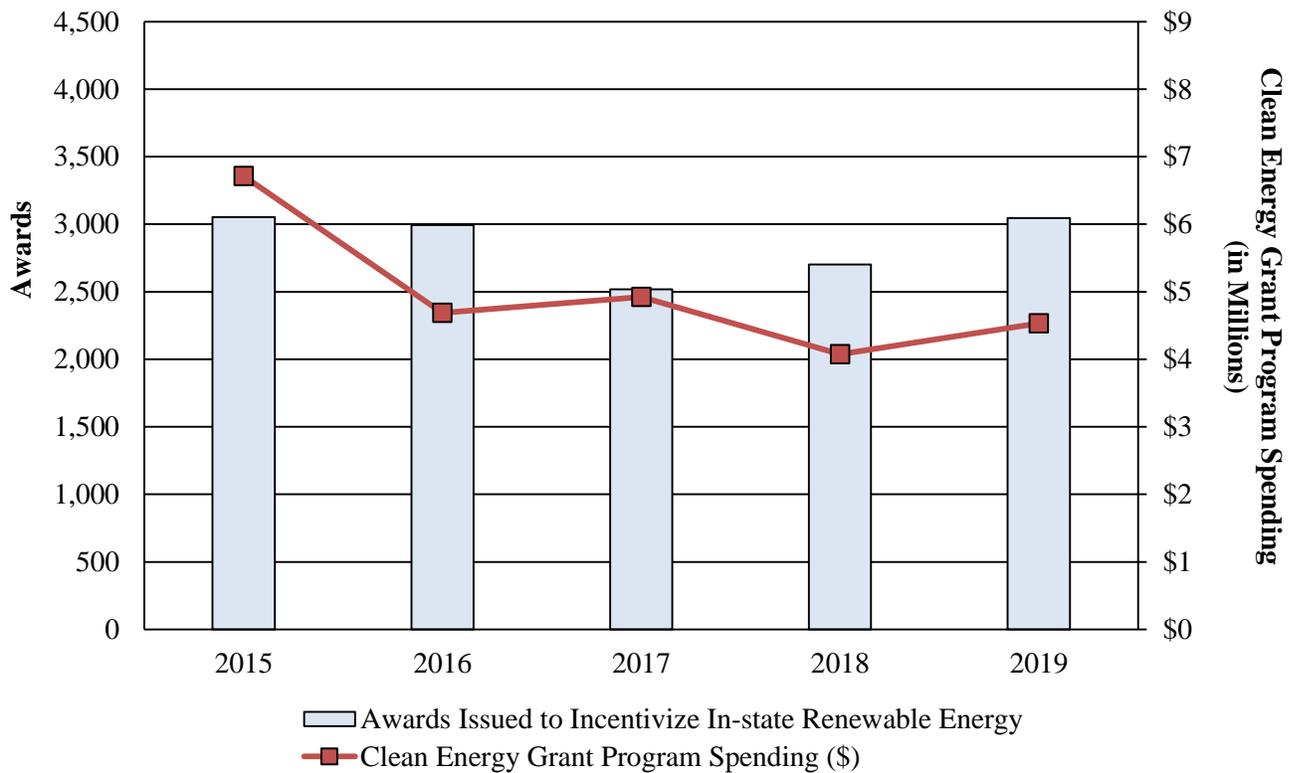
Source: Maryland Energy Administration; Department of Budget and Management; Governor’s Fiscal 2017-2021 Budget Books

3. In-state Renewable Energy Increases

MEA reports a number of measures related to in-state renewable energy incentivized through grants and programs of the agency as part of its MFR submission. As shown in **Exhibit 3**, in fiscal 2018, the number of awards issued increased by 7.3% despite a decrease in clean energy grant spending.

MEA explained that, during fiscal 2018, agency staff reached out to past program applicants with missing documentation to collect information necessary to allow the application to move forward. In addition, the types of technology for which awards are made impacts the required funding as grants for some technologies are lower than others. In fiscal 2019, the number of awards issued increased by 12.7%, consistent with the increase in program spending of 11.2%.

Exhibit 3
In-state Renewable Energy Awards versus Clean Energy Grant Program Spending
Fiscal 2015-2019



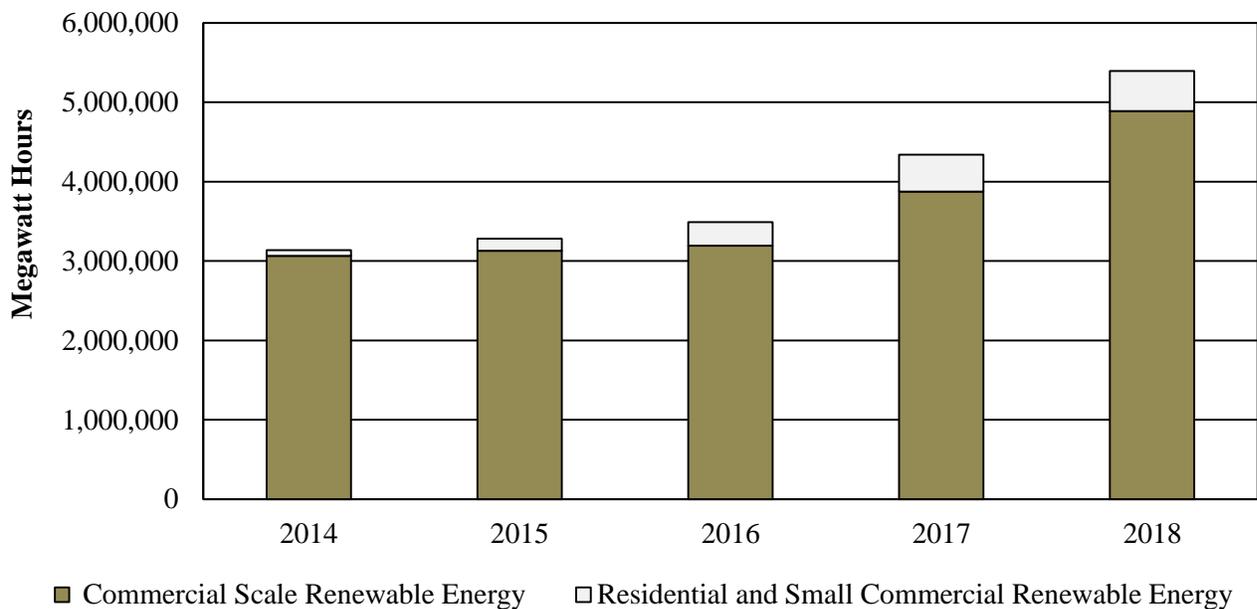
Note: Awards issued in fiscal 2018 have been revised since the 2019 session. Spending reflects only the spending from the Clean Energy Grant program, which includes residential renewable energy grants, commercial renewable energy grants, community wind development grants, and solar photovoltaic in parking lots grants.

Source: Maryland Energy Administration; Department of Budget and Management; Governor’s Fiscal 2020-2021 Budget Books

As shown in **Exhibit 4**, the megawatt hours (MWh) of renewable energy generated in-state continued to increase in calendar 2018 (the most recent year of actual data available). According to the Public Service Commission (PSC), in calendar 2018, there were approximately 61.5 million MWh of retail electricity sales in Maryland, an increase of approximately 4% compared to calendar 2017. In

calendar 2018, a total of 5.4 million MWh of renewable energy were generated in-state, an increase of 24.3% compared to calendar 2017. For the first time in more than six years, the growth in commercial scale renewable energy generated in-state (26.1%) exceeded residential and small commercial scale renewable energy generated in-state (9.4%). The growth in commercial-scale renewable energy generated increased primarily due to hydropower generation. MEA reports that calendar 2018 was the highest producing year for hydropower in the period from 2001 to 2018. In addition, MEA noted that there was an increase in utility scale solar power in calendar 2018.

Exhibit 4
Renewable Energy Generated In-state
Calendar 2014-2018



Note: This reflects statewide renewable energy generated in-state, not just energy incentivized by the Maryland Energy Administration (MEA). This measure does not reflect direct funding or actions of MEA.

Source: Maryland Energy Administration; Department of Budget and Management; Governor’s Fiscal 2019-2021 Budget Books

The growth in residential and small commercial scale renewable energy has slowed substantially over the last couple of calendar years. MEA notes that this type of generation is driven almost entirely by solar photovoltaic (PV) energy. MEA explains that the slowdown in growth is likely related to a decrease in the Solar Renewable Energy Credit (SREC) prices in the Renewable Portfolio Standard (RPS). Between calendar 2008 and 2018 (the most recent data available), SREC prices decreased from \$345.45 to \$31.91. In particular, between calendar 2016 and 2017, the SREC price decreased by 65.5%; and, between calendar 2017 and 2018, SREC prices declined by an additional

16.4%. In addition, MEA indicates that some companies are no longer offering power purchase agreements or focusing on the residential sector. These agreements were a significant factor in the growth of residential renewable energy.

Fiscal 2020 Proposed Deficiency Appropriations

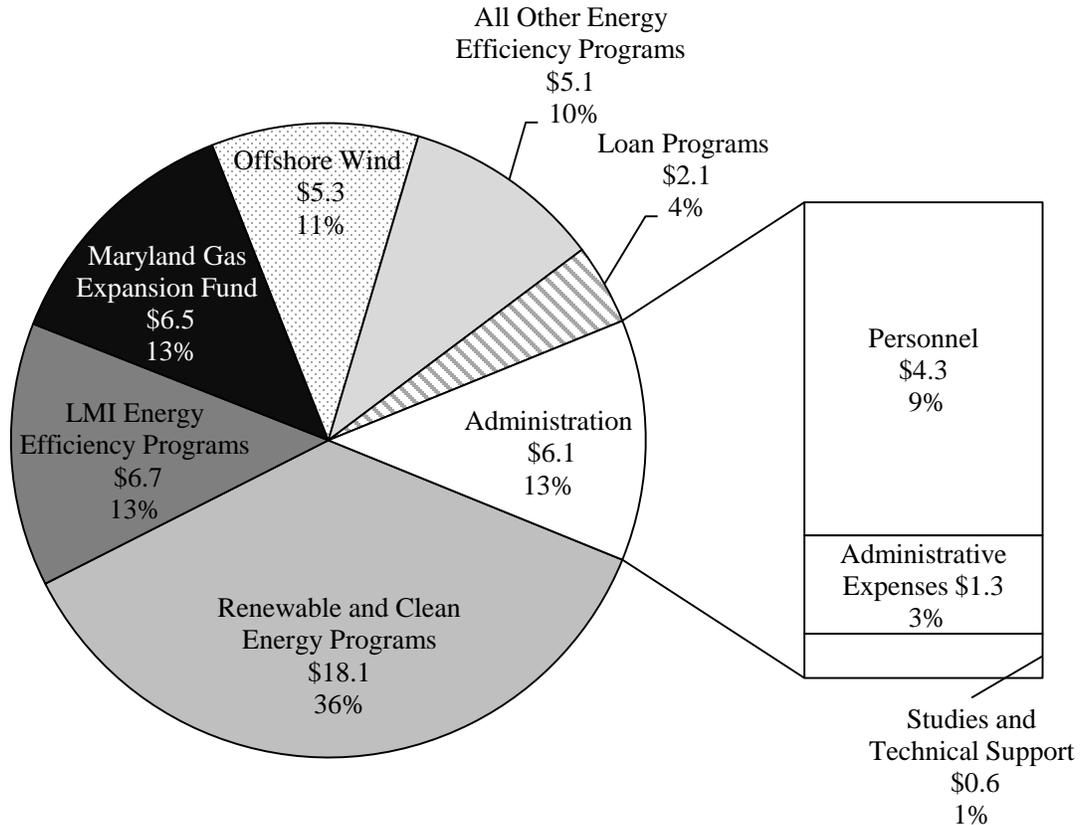
The fiscal 2021 budget contains four deficiency appropriations related to MEA:

- Two proposed deficiency appropriations realign funding between the JELLP and the SALP (\$1.2 million of special funds) consistent with Chapter 135.
- A proposed deficiency increases funding in the Energy Efficiency and Conservation Programs, Low- and Moderate-Income Sector by \$2.5 million in special funds from the SEIF for the Clean Energy Communities Low-to-Moderate Income Grant Program due to continued high demand. The total funding for this program in fiscal 2020, including the deficiency appropriation (\$6.0 million), is more in line with recent history.
- An additional proposed deficiency increases funding in the Energy Efficiency and Conservation programs, All Other Sectors by \$367,061 for the Combined Heat and Power program. The increase is from funds available as a result of the merger between Exelon Corporation (Exelon) and Pepco Holdings Inc. This deficiency appropriation is intended to exhaust the remaining available funds from that merger. However, it proposes to appropriate more funding than is available for this purpose. **The Department of Legislative Services (DLS) recommends reducing the proposed deficiency appropriation to the level of available funds.**

Fiscal 2021 Overview of Agency Spending

The fiscal 2021 allowance of MEA totals \$49.8 million after accounting for statewide employee compensation adjustments. As shown in **Exhibit 5**, renewable and clean energy programs are the largest category of spending, 36.4%, or \$18.1 million. This category includes grants to support residential and commercial renewable energy and alternative fuel activities. The expenditures in this program in fiscal 2021 include both RGGI-sourced funding, the primary ongoing funding source for MEA grants and programs, and funds available as a condition of the PSC order approving the merger of Exelon and Constellation Energy Group (Constellation).

**Exhibit 5
Overview of Agency Spending
Fiscal 2021 Allowance
(\$ in Millions)**



LMI: low- and moderate-income

Note: Numbers may not sum due to rounding. The fiscal 2021 allowance has been adjusted to account for statewide employee compensation adjustments.

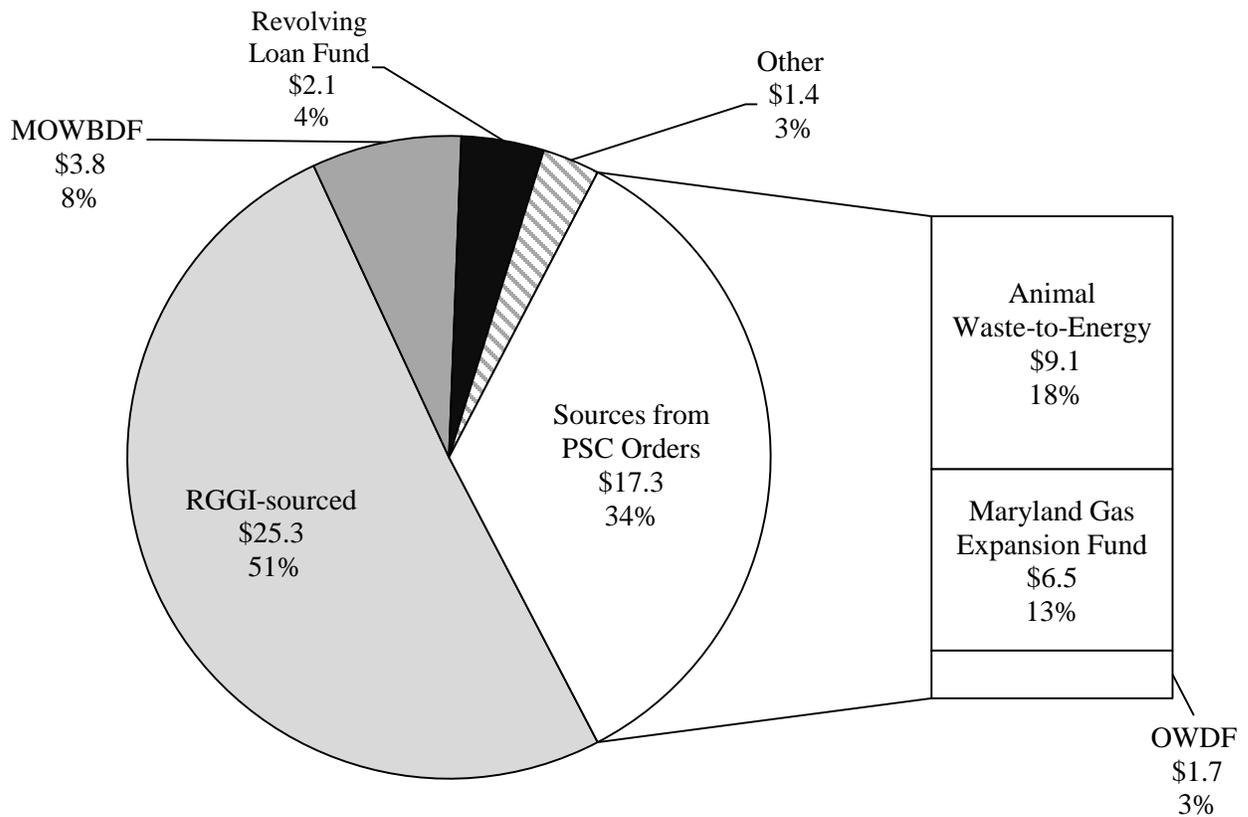
Source: Maryland Energy Administration; Governor’s Fiscal 2021 Budget Books; Department of Legislative Services

Agency Spending by Source

While RGGI-sourced SEIF is the primary ongoing source of MEA programmatic and administrative expenses in recent years, it has not always been the largest source of funding. PSC orders in utility mergers or other large proceedings have included conditions for approval that require

contributions to MEA or other entities for certain types of activities. As shown in **Exhibit 6**, in the fiscal 2021 allowance, these PSC order-sourced funds account for approximately 34% of MEA’s budget, a decrease from approximately 39% in fiscal 2020. The decrease occurs due to a higher amount of RGGI-sourced funding and the end of one of these PSC order-sourced funds in fiscal 2020.

Exhibit 6
Spending by Source
Fiscal 2021 Allowance
(\$ in Millions)



MOWBDF: Maryland Offshore Wind Business Development Fund
 OWDF: Offshore Wind Development Fund
 PSC: Public Service Commission
 RGGI: Regional Greenhouse Gas Initiative

Note: Numbers may not sum due to rounding. Assumes the fiscal 2021 general salary increase spending is supported with RGGI and federal funds.

Source: Maryland Energy Administration; Governor’s Fiscal 2021 Budget Books; Department of Legislative Services

The contributions are set amounts and must be used in the manner directed in the PSC order creating the source:

- ***Animal Waste-to-Energy Alternative Compliance Payments (ACP):*** Liquidated damages totaling \$44 million from a State-chosen option of a menu of possible requirements are related to the development of new animal waste-to-energy generation from the Exelon and Constellation merger. These funds are required to be used to support Tier 1 renewable energy creation similar to how ACP (payments in lieu of purchasing renewable energy credits) are required to be used under the RPS. In addition to MEA, these funds have been used in the Maryland Department of Agriculture for animal waste-to-energy activities and the Maryland Department of Labor (MDL) for the Employment Advancement Right Now (EARN) program. The fiscal 2021 allowance of MEA includes \$9.1 million for this purpose.
- ***Maryland Gas Expansion Fund:*** A contribution of \$30.3 million for use by MEA to promote the expansion of natural gas infrastructure to serve businesses, residents, and industrial enterprises, and utility generation facilities from the AltaGas Ltd. and WGL Holdings, Inc. merger. PSC required that the majority of the funds be used within the Washington Gas service territory and at least \$4.6 million be used within Calvert, Charles, Frederick, and St. Mary's counties. The fiscal 2021 allowance includes \$6.5 million from this fund.
- ***Offshore Wind Development Fund:*** A contribution of \$30 million for offshore wind development activities from the Exelon and Constellation merger. A portion of these funds were used as seed funds for the Maryland Offshore Wind Business Development Fund as required in statute. The fiscal 2021 allowance includes approximately \$1.7 million from this fund, including administrative expenses. The largest component is for the continued commitment to the national Offshore Wind Research and Development Consortium (\$1.0 million). Other spending includes travel related to offshore wind-related events and a variety of technical studies.

Proposed Budget Change

As shown in **Exhibit 7**, the fiscal 2021 allowance of MEA increases by \$5.3 million, or 11.8%, compared to the fiscal 2020 working appropriation after accounting for statewide employee compensation adjustments. The increase is driven by special funds (\$8.6 million) due to an increase spending of RGGI sources (discussed further in Issue 1) as well as increases in PSC order-sourced funds. The increase is partially offset by a decrease of \$3.3 million in federal funds, primarily funds available from the American Recovery and Reinvestment Act of 2009 (ARRA) budgeted for State agency energy efficiency projects. These funds were originally allocated to the SALP but, due to difficulties in lending these funds because of ongoing reporting requirements and other provisions of the ARRA, MEA withdrew the federal funds from that purpose. However, MEA allocated these funds toward State agency energy efficiency projects, as were originally planned.

Exhibit 7
Proposed Budget
Maryland Energy Administration
(\$ in Thousands)

| How Much It Grows: | <u>Special</u> <u>Fund</u> | <u>Federal</u> <u>Fund</u> | <u>Reimb.</u> <u>Fund</u> | <u>Total</u> |
|---|---------------------------------------|---------------------------------------|--------------------------------------|----------------------|
| Fiscal 2019 Actual | \$32,024 | \$1,073 | \$134 | \$33,231 |
| Fiscal 2020 Working Appropriation | 40,013 | 4,379 | 152 | 44,543 |
| Fiscal 2021 Allowance | <u>48,591</u> | <u>1,058</u> | <u>150</u> | <u>49,799</u> |
| Fiscal 2020-2021 Amount Change | \$8,578 | -\$3,321 | -\$1 | \$5,256 |
| Fiscal 2020-2021 Percent Change | 21.4% | -75.8% | -0.9% | 11.8% |
| Where It Goes: | | | | <u>Change</u> |
| Personnel Expenses | | | | |
| 2 new regular positions including a new program manager and a new accounting specialist. | | | | \$131 |
| Employee retirement..... | | | | 38 |
| 2% general salary increase, effective January 1, 2021..... | | | | 29 |
| Regular earnings | | | | 25 |
| Employee and retiree health insurance | | | | 20 |
| Annualization of 1% general salary increase, effective January 1, 2020..... | | | | 15 |
| Turnover expectancy increases from 4.93% to 5.83%, in part, to account for new regular positions | | | | -34 |
| Other fringe benefit adjustments..... | | | | 13 |
| Offshore Wind | | | | |
| Maryland Offshore Wind Business Development Fund due to planned new programs | | | | 750 |
| Offshore Wind Development Fund due to available balance | | | | -250 |
| Alternative Fuel Programs | | | | |
| State Fleet Electric Vehicle Program due to timing and location in State budget of fiscal 2020 program funding | | | | 2,250 |
| Alternative Fuel Vehicle Incentive Program | | | | 1,000 |
| Electric Vehicle Recharging Equipment Rebate Program to reflect the proposed maximum funding level in HB 359/SB 277 | | | | 600 |
| Renewable Energy and Solar Energy Programs | | | | |
| First year of commitment for Solar on Large Public Institutions Program as announced in August 2019 | | | | 2,000 |
| Second round of funding for the Solar Resiliency Hub after fiscal 2020 pause to incorporate lessons learned from first round of funding | | | | 1,400 |
| Residential and commercial renewable energy grants | | | | 800 |

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| Where It Goes: | <u>Change</u> |
|---|----------------------|
| Community Solar Program due to available funding and slower implementation related to the low- and moderate-income portion of pilot supported by this grant resulting from income validation implementation issues..... | -1,830 |
| Program Changes Due to Available Funding and Demand | |
| Maryland Gas Expansion Fund due to ramp-up of programs in second year of funding | 2,500 |
| Clean Energy Communities Low-to-Moderate Income Grant Program | 700 |
| Commercial, Industrial, and Agriculture Energy Efficiency Program | 600 |
| Maryland Smart Energy Communities Program due to additional communities participating in recent years..... | 200 |
| Available funding in final year of grant from the U.S. Department of Energy related to local government street lighting..... | -168 |
| Community College Energy Efficiency Grant Program pilot due to limited demand | -200 |
| Combined Heat and Power Program primarily due to the end of the Most Favored Nation funds from the Exelon Corporation and Pepco Holdings, Inc. merger | -2,755 |
| One-time grant program for State agency building energy efficiency program using federal funds withdrawn from the State Agency Loan Program | -3,200 |
| Administrative Changes | |
| Carbon capture and biomass related studies | 400 |
| Shared Services Human Resources following the planned end of human resources and other support from the Governor’s Office of Finance and Administration to the agency..... | 129 |
| 1 new contractual full-time equivalent (FTE) and filling of a vacant FTE at a higher salary | 116 |
| Cost allocations..... | -60 |
| Other changes..... | 38 |
| Total | \$5,256 |

Note: Numbers may not sum due to rounding. The fiscal 2020 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2021 allowance includes contingent reductions and general salary increases.

State Fleet Electric Vehicle Program

Section 42 of the Fiscal 2020 Budget Bill (Chapter 565 of 2019) reduced \$1.5 million of general funds for the purchase of vehicles statewide, excluding agencies purchasing police vehicles. The language authorized a budget amendment to be processed in the amount of \$2.25 million from the SEIF Renewable Energy, Climate Change subaccount to replace the general funds for the purchase of fully electric or plug-in electric hybrid vehicles. This program allows the State to lead by example in the switching from conventional fuel vehicles to electric vehicles.

In total, \$2.4 million of the SEIF will be added to the Department of Budget and Management’s (DBM) fiscal 2020 budget by budget amendment for this purpose, though the processing of the budget amendment was not complete at the time of the budget submission. The fiscal 2021 allowance includes \$2.25 million in special funds from the SEIF for this purpose in the budget of MEA. As a result, while

this appears to be an increase of \$2.25 million in fiscal 2021, based on current plans, the funding in the program is decreasing by approximately \$117,000.

Solar PV on Large Public Institutions Program

In August 2019, Governor Lawrence J. Hogan, Jr. announced several initiatives to promote renewable and clean energy. These initiatives including creating a Task Force on Renewable Energy Development and Siting to assist in developing recommendations on the siting of new solar and wind energy projects in the State. In addition, the Governor announced that the Department of General Services (DGS) and the Maryland Environmental Service (MES) would conduct an assessment and inventory of State properties that could be utilized for solar energy. Finally, the Governor pledged \$4 million in grants to aid large public institutions, including community colleges and universities, to deploy solar arrays on existing infrastructure and encourage State agencies to incorporate solar energy into future construction. The fiscal 2021 allowance includes \$2.0 million as part of this commitment. The details of the program are still in development, but it is expected to provide grants for solar installations on rooftops and parking garages.

Maryland Gas Expansion Fund

The fiscal 2021 allowance includes \$6.5 million from the Maryland Gas Expansion Fund, an increase of \$2.5 million compared to the fiscal 2020 working appropriation. The primary activities funded in fiscal 2020 are:

- a Contributions in Aid of Construction Dispensation Fund to defray costs typically passed on to potential utility customers in gas expansion that relate to the infrastructure from the end of the utility property to the customer's property; and
- the Maryland Energy Infrastructure Program to provide grants to invest in assets (such as pipes) for new customers, reintegration of customers who no longer have functional access to natural gas infrastructure, or existing customers not currently using natural gas infrastructure, including costs to reach areas of the State that do not have natural gas service. Grants are available for:
 - local distribution companies that currently hold a State and/or federal license to operate natural gas infrastructure in Maryland; and
 - anchor customers (commercial, industrial, State agencies, local governments, and nonprofits) with specified levels of energy usage per month.

MEA indicates that substantial interest was expressed in the first round of funding in fiscal 2020, with significantly more applications for funding than available funding. Fiscal 2020 awards have not been announced as of the time of writing. Consistent with the high level of interest, MEA indicates that the increase in fiscal 2021 reflects the planned ramp-up in activities in the second year of support.

Future Funding Challenges

As shown in **Exhibit 8**, by the close of fiscal 2020, two of the non-RGGI-sourced SEIF balances (Most Favored Nation Provision and Dominion Cove Point) are expected to be largely exhausted. By the end of fiscal 2021, a third (the Animal Waste-to-Energy ACP) is expected to have \$2.0 million remaining. Of these sources, only the Animal Waste-to-Energy ACP has funding budgeted in MEA in fiscal 2021. In recent years, these three fund sources have enabled higher spending levels than RGGI-sourced revenue alone could have supported. For example, the \$9.1 million of these funds budgeted in MEA accounts for 30% of the Renewable and Clean Energy Program spending or 50% of the funding specifically for renewable and clean energy or alternative fuel grants. As a result, it is likely that spending for renewable and clean energy programs will decline significantly beginning in fiscal 2022, unless there are substantial increases in RGGI revenue. **MEA should comment on the potential challenges that the energy efficiency and renewable and clean energy programs will face following the end of these alternative sources of funding**

Exhibit 8
Strategic Energy Investment Fund Balance from Non-RGGI Sources
Fiscal 2019-2021 Est.
(\$ in Millions)

| | <u>2019 Actual</u> | <u>2020 Est.</u> | <u>2021 Est.</u> |
|---|--------------------|------------------|------------------|
| Renewable Portfolio Standard | \$23.5 | \$11.1 | \$2.0 |
| Offshore Wind Development | 6.0 | 4.1 | 2.4 |
| Dominion Cove Point | 0.2 | 0.2 | 0.2 |
| Most Favored Nation Provision Pepco/Exelon Merger | 3.6 | -0.2 | -0.2 |
| Maryland Gas Expansion Fund | 30.3 | 26.3 | 19.8 |
| Total | \$63.7 | \$41.5 | \$24.2 |

RGGI: Regional Greenhouse Gas Initiative

Note: Numbers may not sum due to rounding. Numbers may not match Appendix K of the Governor’s Budget Books in order to align spending expectations to the levels appropriated in fiscal 2020 for the Offshore Wind Development Fund and the anticipated level of spending in fiscal 2021 for the Animal Waste-to-Energy Alternative Compliance Payment.

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

Personnel Data

| | <u>FY 19 Actual</u> | <u>FY 20 Working</u> | <u>FY 21 Allowance</u> | <u>FY 20-21 Change</u> |
|------------------------|--------------------------------|---------------------------------|-----------------------------------|-----------------------------------|
| Regular Positions | 28.00 | 28.00 | 30.00 | 2.00 |
| Contractual FTEs | <u>7.74</u> | <u>10.00</u> | <u>11.00</u> | <u>1.00</u> |
| Total Personnel | 35.74 | 38.00 | 41.00 | 3.00 |

Vacancy Data: Regular Positions

| | | |
|---|------|-------|
| Turnover and Necessary Vacancies, Excluding New Positions | 1.63 | 5.83% |
| Positions and Percentage Vacant as of 12/31/19 | 1.00 | 3.57% |
| Vacancies Below Turnover | 0.63 | |

- The fiscal 2021 allowance includes 2 new regular positions for MEA. One position will serve as a program manager focusing on solar-related programs. The other position reflects a change in support for MEA. Previously, the Governor’s Office of Finance and Administration provided accounting, procurement, and human services support to the agency. MEA is expected to assume these responsibilities with the transition period beginning in fiscal 2021. As a result, 1 new position will provide accounting support. Support for a number of the other services will be provided through DBM’s Shared Services Human Resources Initiative.
- The fiscal 2021 allowance adds 1 new contractual full-time equivalent for a communications assistant.

Issues

1. RGGI Auction Revenue Remains Stable, Program Changes Loom

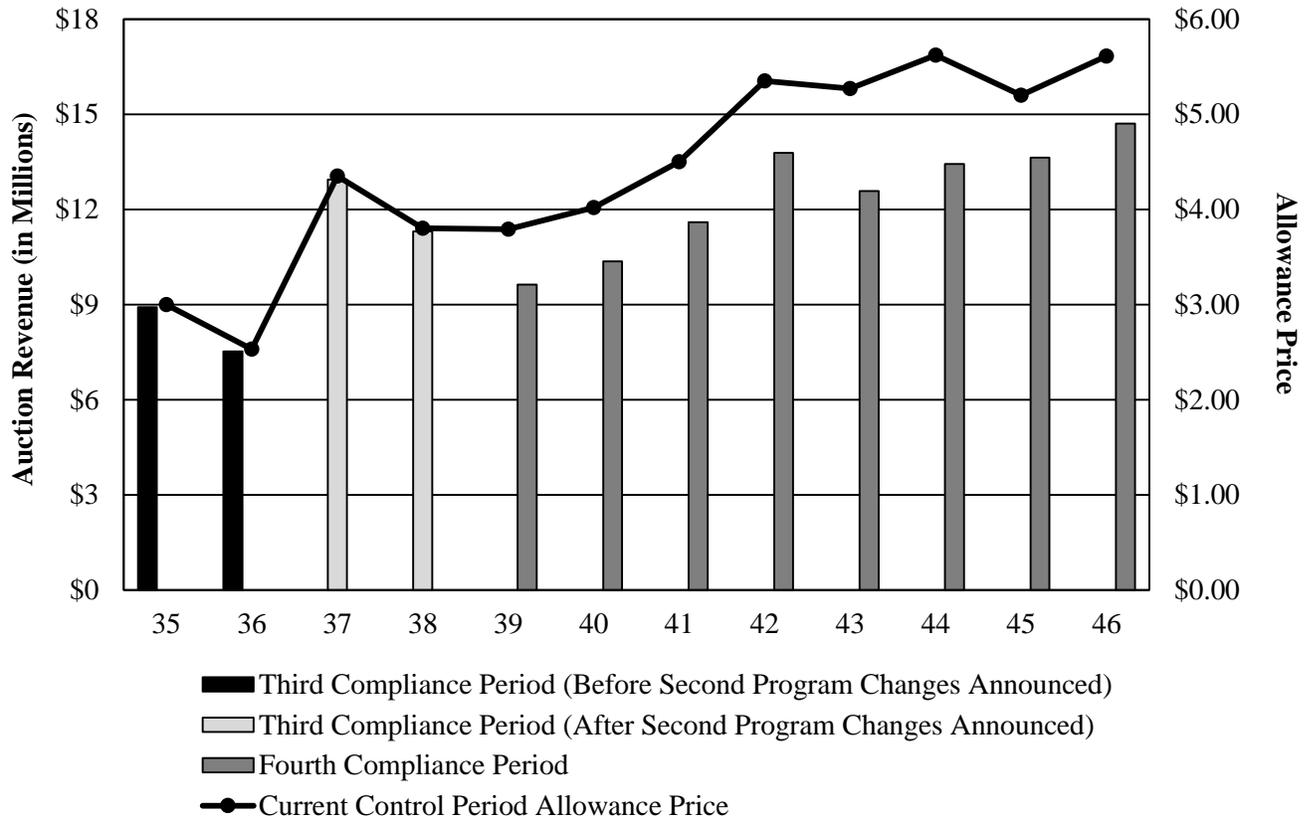
RGGI Revenue Influenced by Program Changes

RGGI auction clearing prices peaked at \$7.50 per allowance in December 2015. Following that peak, the auction clearing prices generally declined through mid-calendar 2017, falling to a low of \$2.53 per allowance in June 2017. Though the reason for the decline was not definitively known, the potential causes included the impact of the federal Clean Power Plan not appearing to move forward and reduced demand as it became evident that emissions were below the cap.

In August 2017, RGGI preliminarily announced program changes that became final in December 2017. In addition, three states have taken steps toward joining or rejoining RGGI. New Jersey rejoined RGGI in January 2020. In October 2019, the Governor of Pennsylvania signed an executive order directing the state's Department of Environmental Protection to take steps to join RGGI by presenting regulations to its Environmental Quality Board by July 31, 2020. In early 2019, Virginia's Air Pollution Control Board approved a regulation that would have established a market-based program to reduce greenhouse gas emissions, which would have allowed the state to participate in RGGI. However, the Virginia state budget signed into law in May 2019 contained provisions that prevent participation currently. The program changes, as well as the efforts by other states to join the program, have stabilized the RGGI market.

As shown in **Exhibit 9**, the auction clearing price has exceeded \$5.00 in each auction beginning December 2018 and has exceeded \$5.50 in two of those five auctions. Revenue generally follows the trend of allowance auction clearing prices. However, the number of allowances offered for sale varies between some auctions also influencing revenue. The most common reason for this is that adjustments in the cap between calendar years typically decrease the number of allowances available for sale between the December auction and the March auction. For example, auctions 38 (December 2017) and 39 (March 2018) had similar auction clearing prices, but the resulting revenue was \$1.7 million lower in auction 39.

Exhibit 9
RGGI Quarterly Auction Results for Maryland
Auctions 35 (March 2017) to Auction 46 (December 2019)



RGGI: Regional Greenhouse Gas Initiative

Source: RGGI, Inc.

Beginning in calendar 2021, with the implementation of the program changes finalized in 2017, a new emissions containment reserve will permanently retire a certain number of allowances if the auction clearing price falls below a certain level. This reduction will only occur for states choosing to implement this mechanism, including Maryland. In calendar 2021, this price is \$6.00. In auction 46 (December 2019), the most recent auction, the auction clearing price was \$5.61. At that level, 10% of allowances in the auction would be permanently retired. However, there is substantial uncertainty as to how the market will react to this new mechanism. It could result in the emissions containment reserve level becoming a *de facto* floor or the auctions could continue to function as it currently does with prices that will vary based on other market factors. Given the uncertainty, the fiscal 2021 SEIF revenue forecast continues to estimate auction prices at the floor (\$2.38) in calendar 2021. This method of revenue forecasting, which has been implemented for several years, assumes overattainment of revenue

beyond the floor price will continue to be used in the next budget cycle (*e.g.*, overattained fiscal 2021 revenue is used in fiscal 2023).

RGGI Allocation and Fund Balance

Chapters 127 and 128 of 2008 established the SEIF primarily to receive revenue from the RGGI carbon dioxide emission allowance auctions. The chapters also established an allocation of revenue from the sale of allowances to be distributed among various categories of spending. The allocations were subsequently changed with the current allocation enacted as part of the Budget Reconciliation and Financing Act (BRFA) of 2014. Other revenues held in the SEIF available from difference fund sources (such as the ACP and funds available from PSC orders) are not subject to the statutory allocation of revenue. Outside of the ACP, the inclusion of these funds in the SEIF was not required by statute.

Statutory Comparison

Traditionally, the statutory allocation occurs after the distribution of transfers required under statute and accounting for the payment of annual dues to RGGI, Inc. The fiscal 2021 SEIF forecast accounts for two changes compared to current law. These actions combined result in a net decrease of potentially \$10.5 million or more of revenue available for allocation than would be required under current law.

- As discussed further in Issue 2, a transfer from the SEIF to the Transportation Trust Fund (TTF) to replace revenue lost from the Electric Vehicle Excise Tax Credit was set to end after fiscal 2020. However, Governor Hogan is proposing to continue the tax credit and transfer to the TTF through fiscal 2023. In fiscal 2020, the required transfer was \$6.0 million; the proposed legislation increases the transfer to at least \$12 million or the amount of the credits if lower than \$12 million beginning in fiscal 2021.
- Partially offsetting this action, the BRFA of 2020 proposes to eliminate the mandated transfer from the SEIF to the Maryland Energy Innovation Fund (MEIF) (\$1.5 million) after fiscal 2020 rather than fiscal 2022. Additional information about the proposed end of the MEIF transfer is included in Issue 3.

As shown in **Exhibit 10**, the fiscal 2021 allowance exceeds the RGGI revenue forecast to be available for each statutory allocation. Available fund balance primarily due to the overattainment of revenue (as expected in the revenue forecasting method) and realigning interest (that otherwise accrues to the administrative account) allows for spending at levels well above (\$40.8 million) the amount available for each program under the statutory allocation in fiscal 2021. If the Governor's proposed legislation is not accounted for in the revenue available, a lower but still significant fund balance amount is required to support the fiscal 2021 allowance (\$30.3 million). **MEA should comment on how and when it determines to reallocate the interest.**

Exhibit 10
Fiscal 2021 Allowance Compared to Required RGGI Distribution
(\$ in Millions)

| | <u>Revenue Available under Governor's Plan</u> | <u>Revenue Available under Current Law</u> | <u>Governor's Plan</u> | | <u>Current Law</u> | |
|---|--|---|------------------------------------|--------------------------------|------------------------------------|--------------------------------|
| | <u>2021 Allowance</u> | <u>Revenue Distribution as Determined by Statue</u> | <u>2021 Revenue Allocation</u> | <u>Use of Fund Balance</u> | <u>2021 Revenue Allocation</u> | <u>Use of Fund Balance</u> |
| Revenue Estimate | \$23.1 | | | | | |
| RGGI Dues | -0.6 | | | | | |
| Maryland Energy Innovation Fund | 0.0 | | | | | |
| Electric Vehicle Tax Credit | -12.0 | | | | | |
| Revenue Available for Distribution | \$10.5 | | | | | |
| Proposed Use of Fund Balance | \$40.8 | | | | | |
| Total | \$51.3 | | | | | |
| Energy Assistance | \$19.9 | At least 50% | \$5.3 | \$14.6 | \$10.5 | \$9.3 |
| Department of Human Services | \$19.9 | | | | | |
| Energy Efficiency, Low- and Moderate-Income Sector | \$6.7 | At least 10% | \$1.1 | \$5.6 | \$2.1 | \$4.6 |
| Maryland Energy Administration | \$6.7 | | | | | |
| Energy Efficiency, All Other Sectors | \$7.5 | At least 10% | \$1.1 | \$6.5 | \$2.1 | \$5.4 |
| Maryland Energy Administration | \$5.0 | | | | | |
| Maryland Department of Health | 2.0 | | | | | |
| Department of General Services | 0.5 | | | | | |

| | <u>2021 Allowance</u> | <u>Revenue Distribution as Determined by Statute</u> | <u>Governor’s Plan</u> | | <u>Current Law</u> | |
|---|-----------------------|--|--------------------------------|----------------------------|--------------------------------|----------------------------|
| | | | <u>2021 Revenue Allocation</u> | <u>Use of Fund Balance</u> | <u>2021 Revenue Allocation</u> | <u>Use of Fund Balance</u> |
| Renewable Energy, Climate Change, Resiliency, Energy Education | \$12.8 | At least 20% | \$2.1 | \$10.6 | \$4.2 | \$8.5 |
| Maryland Energy Administration | \$6.8 | | | | | |
| Maryland Department of the Environment | 2.6 | | | | | |
| State Fleet Electric Vehicle Program | 2.3 | | | | | |
| Department of Commerce SMWOBA | 0.2 | | | | | |
| Department of Labor EARN | 0.5 | | | | | |
| Department of Natural Resources | 0.5 | | | | | |
| Administration | \$4.5 | No more than \$5.0 million, up to 10% | \$1.1 | \$3.4 | \$2.1 | \$2.4 |
| Maryland Energy Administration | \$4.5 | | | | | |
| Total | \$51.3 | | \$10.5 | \$40.8 | \$21.0 | \$30.3 |

EARN: Employment Advancement Right Now
 RGGI: Regional Greenhouse Gas Initiative
 SMWOBA: Small, Minority, and Women-Owned Business Account

Note: The allowance amounts listed include the required funding for the SMWOBA in the Department of Commerce as required under the Clean Energy Jobs Act (Chapter 757 of 2019), reflecting the intention to fulfill this requirement. The fiscal 2021 allowance inadvertently did not include funding for the program, but the Governor’s budget plan as reflected in Appendix K of the Budget Highlights is to fund this program.

Source: Governor’s Fiscal 2021 Budget Books; Section 9-20B-05 of the State Government Article; Department of Legislative Services

Fiscal 2021 Allowance Comparison

As shown in **Exhibit 11**, overall, the fiscal 2021 allowance increases spending in RGGI-supported programs throughout the State budget by \$5.9 million after accounting for two proposed fiscal 2020 deficiency appropriations and a planned but not yet processed budget amendment. Most of this growth (\$5.5 million) occurs in the budget of MEA. The largest increase is in Renewable Energy, Climate Change programs (\$3.3 million). This increase, in part, accounts for two adjustments related to the Clean Energy Jobs Act (Chapter 757 of 2019), which requires two sets of transfers from the SEIF beginning in fiscal 2021:

- a total of \$7.0 million between fiscal 2021 and 2028 to the Small, Minority, and Women-Owned Business Account (SMWOBA); and
- a total of \$8.0 million beginning in fiscal 2021 to a Clean Energy Workforce Account in the Maryland EARN program in MDL from the Renewable and Clean Energy Account.

Exhibit 11 Comparison of RGGI-related Appropriations Fiscal 2019-2021 Allowance

| | <u>2019 Actual</u> | <u>2020 Working</u> | <u>2021 Allowance</u> | <u>Change</u> |
|---|------------------------|-------------------------|---------------------------|--------------------|
| Energy Assistance | \$25,996,893 | \$19,942,924 | \$19,850,329 | -\$92,595 |
| Department of Human Services | 26,000,000 | 19,942,924 | 19,850,329 | -92,595 |
| Energy Efficiency, Low- and Moderate-Income Sector | \$5,539,398 | \$6,000,000 | \$6,700,000 | \$700,000 |
| MEA | 4,997,589 | 6,000,000 | 6,700,000 | 700,000 |
| Department of Housing and Community Development | 541,809 | 0 | 0 | 0 |
| Energy Efficiency, All Other Sectors | \$3,892,171 | \$5,839,087 | \$7,537,973 | \$1,698,886 |
| MEA | 1,207,477 | 3,300,000 | 5,000,000 | 1,700,000 |
| Maryland Department of Health | 2,184,694 | 2,039,087 | 2,037,973 | -1,114 |
| Department of General Services | 500,000 | 500,000 | 500,000 | 0 |
| Renewable Energy, Climate Change | \$4,526,990 | \$9,481,956 | \$12,750,000 | \$3,268,044 |
| MEA | 2,273,341 | 4,015,000 | 6,800,000 | 2,785,000 |
| Maryland Department of the Environment | 2,253,649 | 2,850,000 | 2,550,000 | -300,000 |
| State Fleet Electric Vehicle Program | 0 | 2,366,956 | 2,250,000 | -116,956 |
| Maryland Department of Commerce SMWOBA | 0 | 0 | 200,000 | 200,000 |

D13A13 – Maryland Energy Administration

| | <u>2019 Actual</u> | <u>2020 Working</u> | <u>2021 Allowance</u> | <u>Change</u> |
|--|------------------------|-------------------------|---------------------------|--------------------|
| Maryland Department of Labor EARN | 0 | 0 | 450,000 | 450,000 |
| Maryland Department of Natural Resources | 0 | 250,000 | 500,000 | 250,000 |
| Administration | \$3,624,176 | \$4,193,932 | \$4,472,787 | \$278,855 |
| MEA | 3,624,176 | 4,193,932 | 4,472,787 | 278,855 |
| Total | \$43,579,628 | \$45,457,899 | \$51,311,089 | \$5,853,190 |

EARN: Employment Advancement Right Now

MEA: Maryland Energy Administration

RGGI: Regional Greenhouse Gas Initiative

SMWOBA: Small, Minority, and Women-Owned Business Account

Note: The fiscal 2020 working appropriation includes funding for two proposed deficiency appropriations: (1) \$2.5 million for MEA in the Low-to-Moderate Income Grant Program; and (2) \$250,000 in the Department of Natural Resources in the Renewable Energy, Climate Change programs. The fiscal 2020 working appropriation also assumes the processing of a budget amendment to support the State Fleet Electric Vehicle Program that was not completed before the budget submission. The allowance includes the required funding for the SMWOBA account in the Department of Commerce as required under the Clean Energy Jobs Act (Chapter 757 of 2019) reflecting the intention to fulfill this requirement. The fiscal 2021 allowance inadvertently did not include funding for the program, but the Governor’s budget plan as reflected in Appendix K of the Budget Highlights is to fund this program.

Source: Governor’s Fiscal 2021 Budget Books; Maryland Energy Administration; Department of Legislative Services

The per year amount of the transfer to EARN was not specified in Chapter 757. As presented in the Governor’s Budget Books, both are treated as mandated expenditures in the Renewable and Clean Energy Account, though the SMWOBA transferred could have been treated as a transfer before the revenue allocation. Combined, these items increase planned spending by \$650,000 in fiscal 2021. However, the SMWOBA funding was inadvertently excluded from the budget. It is the understanding of DLS that these funds will be brought into the budget through either a supplemental budget or a budget amendment.

SEIF Balance

As shown in **Exhibit 12**, at the close of fiscal 2019, the balance from RGGI-sourced subaccounts in the SEIF totaled \$66 million, the largest share of which (\$24.1 million) occurred in the energy assistance subaccount. Based on the current budget plans, including the impact of the proposed statutory changes, the balance at the close of fiscal 2021 is projected to be \$18.7 million. The area of greatest concern in the future is the Renewable Energy, Climate Change account. The forecast assumes the remaining transfers related to Chapter 757 occur through this account, though only a portion of this is required. The remaining commitments, beyond what is planned for fiscal 2021, total \$14.35 million. The current forecast estimates a closing fund balance of \$3.9 million in fiscal 2021. However, the current method of forecasting revenue understates the final closing balance in both fiscal 2020 and 2021 to ensure program cuts are not required mid-year.

Exhibit 12
Strategic Energy Investment Fund Balance, RGGI-sourced Subaccounts
Fiscal 2019-2021 Est.
(\$ in Millions)

| | <u>2019 Actual</u> | <u>2020 Est.</u> | <u>Governor's Plan</u> <u>2021Est.</u> | <u>Current Law</u> <u>2021 Est.</u> |
|--|--------------------|------------------|---|--|
| Energy Assistance | \$24.1 | \$22.4 | \$7.8 | \$13.1 |
| Energy Efficiency and Conservation Programs, Low-and Moderate-income Sector | 4.4 | 2.8 | 2.2 | 3.2 |
| Energy Efficiency and Conservation Programs, All Other Sectors | 5.5 | 3.0 | 1.5 | 2.6 |
| Renewable Energy, Clean Energy, Climate Change, Education, and Resiliency | 14.9 | 12.0 | 3.9 | 6.0 |
| Administration | 17.1 | 16.2 | 3.3 | 4.3 |
| Total | \$66.0 | \$56.5 | \$18.7 | \$29.2 |

RGGI: Regional Greenhouse Gas Initiative

Note: To calculate the balance, revenue is estimated for two auctions in fiscal 2020 (March and June 2020) and all four auctions in fiscal 2021, but includes actual auction results for two auctions in fiscal 2020 (September and December 2019). The fund balances include spending on two proposed deficiency appropriations and budget amendment that was not processed at the time of budget submission. The fund balance also assumes two statutory changes that impact revenue available for distribution to each subaccount. The fund balance accounts for planned spending rather than budgeted amounts in some areas in fiscal 2021. Balance estimates for fiscal 2020 and 2021 do not match amounts shown in Appendix K due to a difference in the proposed statutory level of transfer to the Transportation Trust Fund contained in HB 359/SB 277.

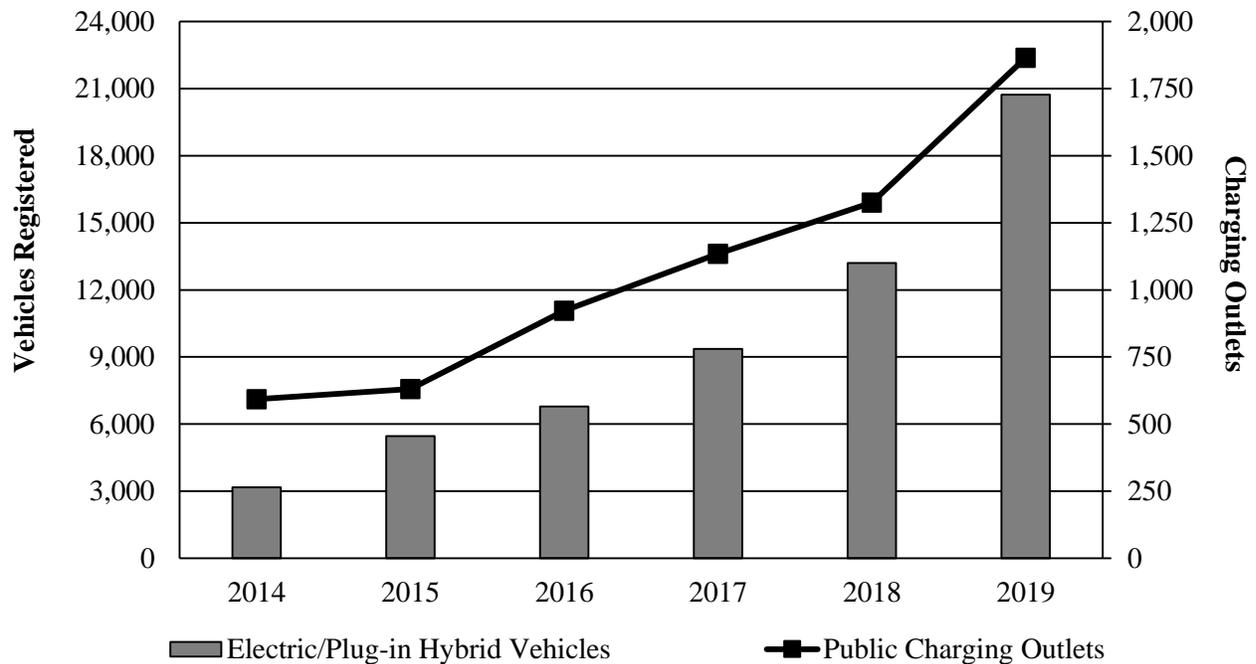
Source: Governor's Fiscal 2021 Budget Books; Maryland Energy Administration; Department of Budget and Management; Department of Legislative Services

2. Electric Vehicle Incentive Programs Set to Expire in Fiscal 2020

Status of Electric Vehicle Market in Maryland

MEA has a goal of achieving 60,000 electric vehicle registrations by 2020 through incentives, marketing, and education. As shown in **Exhibit 13**, progress continues to be made toward this goal. However, the State is not currently on pace to meet the goal. In total, between fiscal 2014 and 2019, the number of electric/plug-in hybrid vehicles registered in the State increased by more than five times. Between fiscal 2018 and 2019, the number of these vehicles registered increased by approximately 57%, the highest rate of growth since fiscal 2015. MEA attributes the increase in electric vehicle adoption to a variety of reasons, including (1) more models on the market increasing options; (2) improvements in battery technology; (3) decreased cost of electric vehicles; (4) increased availability of charging stations; and (5) availability of incentives to support electric vehicles. MEA also noted that electric vehicle adoption has been influenced by education and outreach efforts. Despite the growth, in fiscal 2019, the State had achieved only 34.5% of MEA’s goal of 60,000 electric vehicles registered.

Exhibit 13
Electric and Plug-in Hybrid Electric Vehicles and Infrastructure
Fiscal 2014-2019



Source: Maryland Energy Administration; Department of Budget and Management; Governor’s Fiscal 2020-2021 Budget Books

The number of public charging outlets (whether State-supported or privately owned) more than doubled between fiscal 2014 and 2019. Between fiscal 2018 and 2019, the number of public charging outlets increased by 40.7%, the highest rate since fiscal 2016. MEA notes that the increase likely results from public and private entities increasing infrastructure to meet demand and to provide an amenity to employees and/or customers. In addition, in January 2019, PSC authorized a five-year electric vehicle infrastructure charging pilot. Under this program, the four investor-owned electric utilities will provide incentives for the installation of charging stations (including residential and nonresidential). In addition, the utilities were authorized to install, own, and operate a certain number of electric vehicle chargers (a combined total of 909), which must be located at property leased, owned, or occupied by a unit of State county, or municipal government for public use. However, MEA notes that this authorization likely only minimally impacted the fiscal 2019 numbers due to the timing of the authorization.

Electric Vehicle Excise Tax Credit

The State has provided incentives to support electric vehicle deployment since fiscal 2011 through an Electric Vehicle Excise Tax Credit. The tax credit has been altered, expanded, and extended through legislation five times. As initially authorized (Chapter 490 of 2010), the excise tax credit could equal the tax imposed but not exceed \$2,000. There were limitations on the number per individual (1) and per business entity (10). Subsequent legislation altered the tax credit to (1) vary based on battery capacity; (2) alter the maximum allowable credit per purchase; (3) limit the tax credit to purchases below a certain purchase price; (4) and to create a minimum battery capacity to be eligible for the credit. The most recent alteration of the credit amount (Chapters 362 and 363 of 2017) set the credit amount to \$100 times the number of kilowatt-hours of battery capacity. The chapters retained the maximum \$3,000 cap on the credit. Chapter 213 of 2019 added fuel cell vehicles to the eligible type of vehicles to receive the credit.

Since the beginning of the program, legislation has authorized transfers from the SEIF to replace revenue lost by the TTF due to the tax credit. The authorized transfers have varied over time:

- \$279,000 in fiscal 2011;
- \$939,600 in fiscal 2012;
- \$1,287,000 from fiscal 2013 through 2017;
- \$2,400,000 in fiscal 2018 and 2019; and
- \$6,000,000 in fiscal 2020.

The initial legislation did not specify a total amount of credits allowed in any given year. However, Chapters 359 and 360 of 2014 specified that the maximum amount of credits allowed in any fiscal year could not exceed \$1.8 million. Chapters 362 and 363 increased the maximum amount of credits in a fiscal year for fiscal 2018 through 2020 to \$3.0 million. Chapter 213 increased the maximum allowable

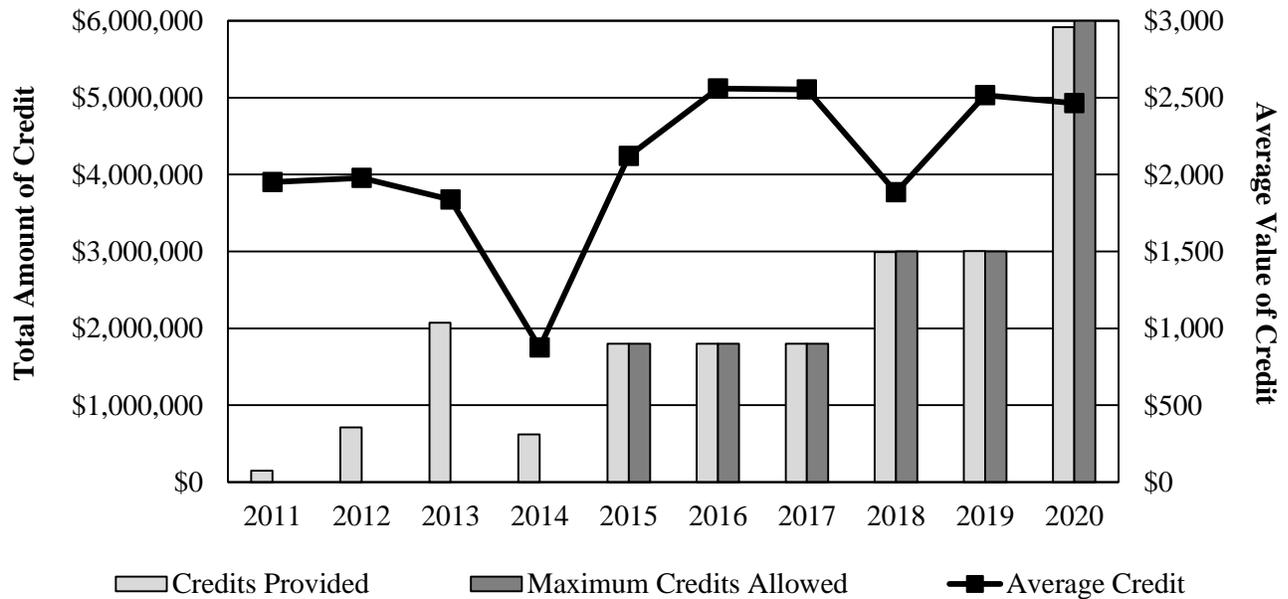
credits in fiscal 2020 to \$6.0 million. Under current law, the credits are only available for new cars purchased and titled for the first time before July 1, 2020.

Governor Hogan has introduced legislation (HB 359/SB 277) to alter and extend the Electric Vehicle Excise Tax Credit through fiscal 2023. In addition to extending the program, the proposed legislation removes the cap on the purchase price for eligible vehicles and alters the credit to a flat amount (\$3,000) rather than a varying amount up to \$3,000. The legislation also increases the amount of funding transferred from the SEIF to the TTF to at least \$12 million each year or the amount of credits provided for fiscal 2021 through 2023 if lower than \$12 million. The proposed legislation does not provide for a maximum level of credits.

Credit Utilization

As shown in **Exhibit 14**, the Motor Vehicle Administration (MVA) reports that the maximum allowable credits have been reached in each year since fiscal 2015, when the limits were first established. Prior to the establishing of the limit, the amount of per year credits issued only exceeded \$1.0 million in one of the four years. MVA indicates that available fiscal 2019 funding for the program was fully expended on February 11, 2019, and for fiscal 2020 on September 13, 2019. MVA reports that as of January 2020 the agency had 2,585 applications still on hand, a portion of which were from fiscal 2019.

Exhibit 14
Electric Vehicle Excise Tax Credit Utilization
Fiscal 2011-2020



Source: Motor Vehicle Administration; Department of Legislative Services

Electric Vehicle Recharging Equipment Rebate Program

In addition to support for electric vehicle purchases, the State has supported the purchase of recharging equipment. Chapter 402 of 2011 established a tax credit program, beginning in tax year 2011. The maximum credits issued could not exceed:

- \$400,000 in tax year 2011;
- \$500,000 in tax year 2012; or
- \$600,000 in tax year 2013.

Chapter 389 of 2013 extended the tax credit program through tax year 2016, maintaining the maximum level of credits provided at \$600,000. The SEIF was required to be transferred to the General Fund to replace the revenue lost due to the tax credit in each of these years.

Chapters 359 and 360 eliminated the tax credit program and replaced it with a rebate program beginning in fiscal 2015. The rebate program was initially expected to continue through fiscal 2017. Under the rebate program, the rebate was limited to the lesser of 50% of the cost of acquiring and installing the equipment or \$900, except that the maximum amount for businesses, local governments, or State government units was set at \$5,000 and for retail service station dealers \$7,500. The total amount of rebates was limited to \$600,000. Chapters 362 and 363 extended the rebate program through fiscal 2020 and decreased the amount of rebates available to all consumer types. The maximum amount of allowable rebates was increased to \$1.2 million. HB 359/SB 277 also includes a proposal to extend the program through fiscal 2023 and increase the maximum level of rebates to \$1.8 million.

Utilization of Rebates

MEA indicated that the rebate funds for fiscal 2019 were depleted in mid-February 2019. The agency used approximately \$475,000 of the \$1.2 million available in fiscal 2020 to resolve the waitlist from fiscal 2019, approximately 40% of the fiscal 2020 funding. MEA has exhausted the fiscal 2020 appropriation and has begun to develop a waitlist for future funding. MEA's fiscal 2021 allowance includes \$1.8 million for this program.

Change in Use of the ACP

HB 359/SB 277 also proposes to change the allowable uses of the ACP under the RPS to allow for the ACP to be used to provide supplemental funding for zero-emission vehicles, zero-emission vehicle infrastructure programs, and other transportation sector greenhouse gas reduction and carbon reduction efforts. Under current law, these funds must be used for loans and grants to support the creation of new Tier 1 renewable energy sources in the State that are owned or directly benefit low-income residents.

MEA should comment on how the proposed increase in the amount of the SEIF transferred to replace the revenue lost due to the tax credit will impact the program offerings otherwise funded through RGGI revenue and how the proposed change to the use of ACP would impact the provision of grants and loans to support renewable and clean energy creation.

3. Maryland Clean Energy Center Funding

The Maryland Clean Energy Center (MCEC) was established by Chapter 137 of 2008 as a nonbudgeted entity. The purpose of MCEC is to (1) promote economic development and jobs in the clean energy industry sector; (2) promote the deployment of clean energy technology; (3) serve as an incubator for the development of the clean energy industry; (4) collect, analyze, and disseminate industry data; and (5) provide outreach and technical support to further the clean energy industries.

Chapter 137 did not establish a funding mechanism for MCEC for either start-up costs or ongoing activities, although MCEC has the ability to charge fees for the programs it offers. Though it received no specific funding mechanism in statute, MCEC received an initial start-up loan as well as subsequent grants and loans from MEA for operating support.

Chapters 364 and 365 of 2017 established the MEIF in the University System of Maryland. The MEIF was to be used by the newly established Maryland Energy Innovation Institute in the A. James Clark School of Engineering at the University of Maryland, College Park Campus and MCEC for administrative and operating costs. MCEC was also authorized to use the funds for certain types of financial assistance (grants or loans; equity investment financing; and guaranteeing loans, equity, investments, or other private financing). The institute was also authorized to use the fund to pay for technical assistance and its administrative, legal, and actuarial expenses. The chapter also converted MCEC's outstanding loans from MEA to grants.

Section 3 of Chapters 364 and 365 also required a transfer of \$1.5 million per year for fiscal 2018 through 2022 from the SEIF to the MEIF. MCEC indicates its share of the MEIF is approximately \$900,000.

Recommendations to Become Self-sustaining

Chapters 364 and 365 also required MCEC to establish a workplan to become self-sustaining within five years of the effective date of the Act and submit a report by December 1, 2019, on the (1) progress in becoming self-sustaining with its current activities and funding and revenue levels; and (2) recommendations for changes, including additional necessary funding, to continue on the trajectory path to reach the goal to become self-sustaining within five years. MCEC commissioned a report prepared by Sustainable Capital Advisors and submitted the requested plan in December 2019 that included five recommendations.

The sustainability report includes a comparison of MCEC with seven other entities of various sizes. Only one of which has a budget of a similar size as MCEC. The remaining entities have annual budgets ranging between \$7.9 million and \$1.0 billion. Of these entities, only one (the New York Green

Bank) has earned revenue exceeding its budget (233% of its budget). The remaining entities have earned revenue ranging between 0% and 49% of the total budget. The sustainability report indicates that MCEC’s highest level of earned revenue relative to its budget was 25% in fiscal 2018. For the purposes of the report, MCEC set a self-sustaining target at 75% of its budget.

Nonfinancial Recommendations

Two of the recommendations in the report do not have a direct tie to its ability to become self-sustaining:

- expanding its mission to include advanced energy technology (resilience activities, grid modernization, energy storage, clean fuels and biotechnology, carbon capture, and electrification of transportation) rather than only clean energy. MCEC indicates that this change reflects current programs and practices; and
- expanding its educational programming in an effort to further establish itself as a trusted third-party advisor related to advanced energy.

Financial Recommendations

Three recommendations in the report relate to its future financing. One recommendation would increase revenue but not provide financial sustainability. The other two provide alternative paths to sustainability.

Exclusive Conduit Bond Issuer: The first recommendation is that MCEC become the exclusive conduit bond issuer for advanced energy projects for State-owned facilities. Currently, MCEC offers a program (the Maryland Clean Energy Capital Program) under which it acts as a conduit for bond financing (taxable and tax-exempt) for qualified projects for various institutions, businesses, governments, and nonprofits. MCEC earns administrative fees for these projects. MCEC also facilitates energy performance contract financings through this program. It receives performance payments for these financings. The Maryland Clean Energy Capital Program has served State entities, primarily higher education institutions. While MCEC offers funding for governments, several State agencies are also involved in energy efficiency and renewable/clean energy projects for other State agencies:

- MEA provides zero interest loans (with an administrative fee) to State agencies for energy efficiency projects;
- DGS manages energy performance contracts for energy efficiency projects for State agencies; and
- MES develops, plans, builds, and provides technical expertise related to renewable energy and energy efficiency projects for State agencies and local governments.

The recommendation does not provide details of how it would be implemented in the context of the current environment/division of responsibilities and funding. Additional consideration would need to be given to how/whether MCEC would take on these roles and if it could take on these roles. MCEC primarily focused its discussion on increasing transactions in its existing program, resulting in a modest increase in earned revenue. However, even with a projected increase in bond issuance activity as the exclusive conduit, this program is not expected to account for more than 35% of its budget.

Green Infrastructure Fund: Another recommendation is the creation of a Green Infrastructure Fund, which MCEC would manage, with a minimum investment of \$50 million over a period of five years. During the period in which the investment would be made, MCEC would also receive additional funding for operating support. This type of fund would allow MCEC to issue financing and receive the interest from those issuances that the report indicates represents an opportunity for significant revenue long term. According to the report, the only two similar entities included in the comparison (the New York Green Bank and the New York City Energy Efficiency Corporation) that had earned revenue of approximately half or more of the entity’s budget received capital for investment and public funding as a bridge until the capital was deployed and interest income began to be realized.

Long-term Sustainable Funding: The report also included a recommendation that MCEC receive a long-term predictable and consistent funding stream. This recommendation provided several options including:

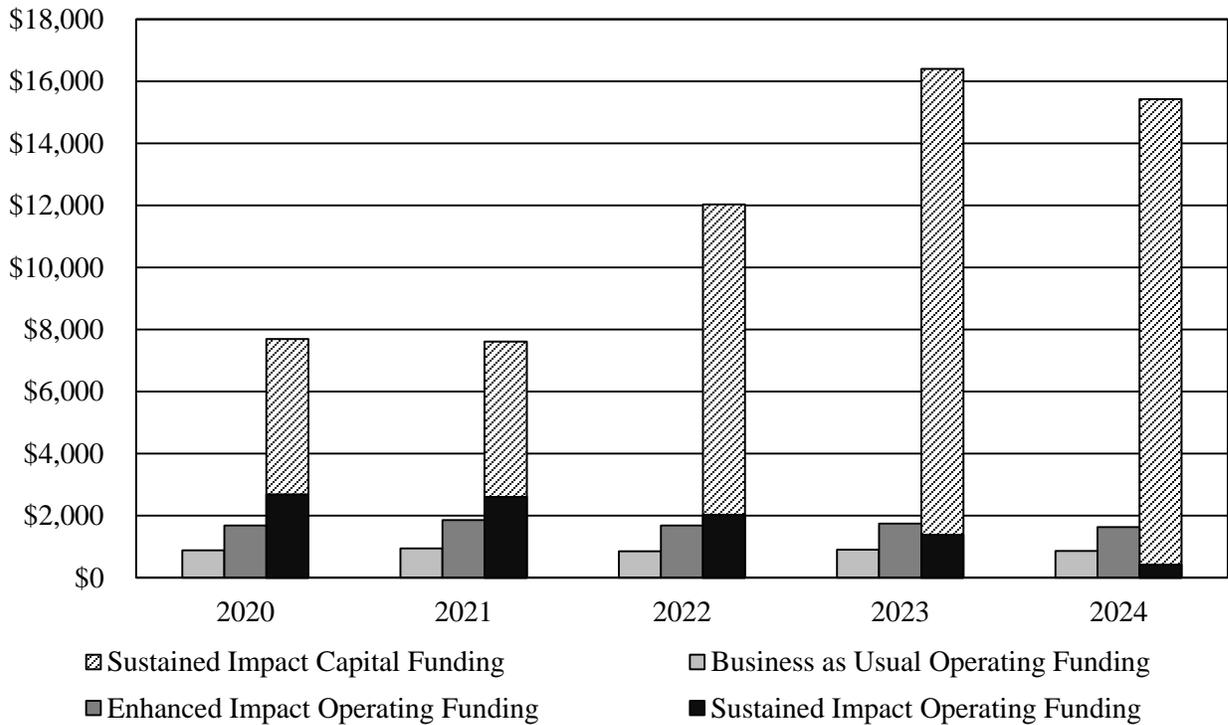
- permanently authorizing funding for MCEC in the distribution of RGGI revenue in the SEIF;
- requiring funding for MCEC in the statute authorizing the EmPOWER Maryland Energy Efficiency programs;
- authorizing special license plate tags similar to the Chesapeake Bay plates;
- authorizing MCEC to administer existing tax credits for activities, such as biotechnology and cybersecurity companies; and
- authorizing MCEC to collect funds through directed donations on State tax returns or utility bills.

Some of these options could be accomplished by legislation. However, traditionally, the EmPOWER Maryland program funds have been utilized by the utilities from the revenue collected in its service territory from a surcharge supporting the programs. The only exception has been PSC authorizing the Department of Housing and Community Development (DHCD) to be the implementer of low- and moderate-income programs. DHCD submitted a proposal to PSC for the programs that it would implement as part of its regular proceedings related to EmPOWER Maryland. MCEC could undertake a similar effort outside of legislation.

MCEC Financial Outlook

The sustainability report provided a five-year forecast (fiscal 2020 through 2024) based on a business as usual case (current operations), an enhanced program scenario (including becoming the sole conduit bond-issuer for State agency projects, expanded education, and a new small business lending program), and a sustainability scenario (adding the implementation of the Green Infrastructure Fund to the enhanced scenario). **Exhibit 15** shows the impact of those various scenarios on requested State support. In all scenarios, it was assumed that the current mandated transfer of the SEIF continue through fiscal 2024. The business as usual scenario generally reflects the current level of funding available from the SEIF transfer to the MEIF, except that the SEIF transfer ends in fiscal 2022 under current law. The sustained impact scenario also assumes revenue related to the special license plate tags.

Exhibit 15
State Funding Needs Under Various Sustainability Scenarios
Fiscal 2020-2024
(\$ in Thousands)



Note: The business as usual scenario requires slightly more than current law funding levels in fiscal 2021 and 2023 but slightly less in fiscal 2020 and 2022. The business as usual scenario assumes the current transfer of Strategic Energy Investment Funds continues through fiscal 2024, rather than the current scheduled end in fiscal 2022.

Source: Maryland Clean Energy Center; Sustainable Capital Advisors

The BRFA of 2020

The BRFA of 2020 proposes to end the current mandated transfer to MCEC after fiscal 2020 rather than fiscal 2022. The business as usual scenario in MCEC’s sustainability report currently projects fiscal 2021 expenses of \$1.6 million with program revenue of less than \$370,000. Based on these estimates, a substantial shortfall in funding in MCEC would occur absent the funding that it receives from the SEIF through the MEIF. MCEC reports its current level of cash reserves would not allow it to fully replace a full fiscal year of spending at its current budget absent this State support.

Operating Budget Recommended Actions

1. Adopt the following narrative:

Strategic Energy Investment Fund Revenue, Spending, and Fund Balance: The committees are interested in ensuring transparency in Regional Greenhouse Gas Initiative (RGGI) revenue assumptions and spending included in the budget as well as available fund balance. The committees request that the Department of Budget and Management (DBM) provide an annual report on the revenue from the RGGI carbon dioxide emission allowance auctions, set aside allowance, and interest income in conjunction with the submission of the fiscal 2022 budget as an appendix to the Governor’s Budget Books. The report shall include information on the actual fiscal 2020 budget, the fiscal 2021 working appropriation, and the fiscal 2022 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 the number of auctions, the number of allowances sold, the allowance price in each auction, and the anticipated revenue from set-aside allowances;
- interest income received on the SEIF;
- amount of the SEIF from RGGI auction revenue available to each agency that receives funding through each required statutory allocation, dues owed to RGGI, Inc., and transfers or diversions of revenue made to other funds; and
- fund balance for each SEIF subaccount for the fiscal 2019 actual, the fiscal 2020 actual, the fiscal 2021 working appropriation, and the fiscal 2022 allowance.

| Information Request | Author | Due Date |
|---|---------------|--|
| Report on revenue assumptions and use of RGGI auction revenue | DBM | With the submission of the Governor’s Fiscal 2022 Budget Books |

| | <u>Amount Reduction</u> |
|---|------------------------------------|
| 2. Reduce the deficiency appropriation for the Combined Heat and Power Program to reflect the available funding from the Exelon Corporation and Pepco Holdings, Inc. merger for this program. | \$ 241,153 SF |
| Total Reductions to Fiscal 2020 Deficiency | \$ 241,153 |

**Appendix 1
Object/Fund Difference Report
Maryland Energy Administration**

| <u>Object/Fund</u> | <u>FY 19 Actual</u> | <u>FY 20 Working Appropriation</u> | <u>FY 21 Allowance</u> | <u>FY 20 - FY 21 Amount Change</u> | <u>Percent Change</u> |
|---|-------------------------|--|----------------------------|--|---------------------------|
| Positions | | | | | |
| 01 Regular | 28.00 | 28.00 | 30.00 | 2.00 | 7.1% |
| 02 Contractual | 7.74 | 10.00 | 11.00 | 1.00 | 10.0% |
| Total Positions | 35.74 | 38.00 | 41.00 | 3.00 | 7.9% |
| Objects | | | | | |
| 01 Salaries and Wages | \$ 3,188,209 | \$ 3,370,152 | \$ 3,563,481 | \$ 193,329 | 5.7% |
| 02 Technical and Spec. Fees | 570,998 | 548,453 | 664,192 | 115,739 | 21.1% |
| 03 Communication | 41,866 | 44,538 | 44,336 | - 202 | - 0.5% |
| 04 Travel | 139,657 | 227,160 | 223,190 | - 3,970 | - 1.7% |
| 07 Motor Vehicles | 4,306 | 1,630 | 2,406 | 776 | 47.6% |
| 08 Contractual Services | 1,161,846 | 2,485,045 | 2,879,905 | 394,860 | 15.9% |
| 09 Supplies and Materials | 47,272 | 22,500 | 15,000 | - 7,500 | - 33.3% |
| 10 Equipment – Replacement | 21,310 | 18,336 | 10,050 | - 8,286 | - 45.2% |
| 11 Equipment – Additional | 5,311 | 10,128 | 8,500 | - 1,628 | - 16.1% |
| 12 Grants, Subsidies, and Contributions | 26,721,359 | 32,584,396 | 39,957,750 | 7,373,354 | 22.6% |
| 13 Fixed Charges | 129,330 | 298,946 | 322,041 | 23,095 | 7.7% |
| 14 Land and Structures | 1,200,000 | 2,050,000 | 2,050,000 | 0 | 0% |
| Total Objects | \$ 33,231,464 | \$ 41,661,284 | \$ 49,740,851 | \$ 8,079,567 | 19.4% |
| Funds | | | | | |
| 03 Special Fund | \$ 32,024,319 | \$ 37,134,845 | \$ 48,547,908 | \$ 11,413,063 | 30.7% |
| 05 Federal Fund | 1,073,034 | 4,374,806 | 1,042,656 | - 3,332,150 | - 76.2% |
| 09 Reimbursable Fund | 134,111 | 151,633 | 150,287 | - 1,346 | - 0.9% |
| Total Funds | \$ 33,231,464 | \$ 41,661,284 | \$ 49,740,851 | \$ 8,079,567 | 19.4% |

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.

**Appendix 2
Fiscal Summary
Maryland Energy Administration**

| <u>Program/Unit</u> | <u>FY 19 Actual</u> | <u>FY 20 Wrk Approp</u> | <u>FY 21 Allowance</u> | <u>Change</u> | <u>FY 20 - FY 21 % Change</u> |
|---|-------------------------|-----------------------------|----------------------------|---------------------|-----------------------------------|
| 01 General Administration | \$ 4,825,767 | \$ 5,696,888 | \$ 6,063,101 | \$ 366,213 | 6.4% |
| 02 The Jane E. Lawton Conservation Loan Program – Capital | 0 | 850,000 | 2,050,000 | 1,200,000 | 141.2% |
| 03 State Agency Loan Program – Capital Appropriation | 1,200,000 | 1,200,000 | 0 | - 1,200,000 | - 100.0% |
| 06 Energy Efficiency and Conservation Programs, Low- and Moderate-Income Residential Sector | 4,997,589 | 3,500,000 | 6,700,000 | 3,200,000 | 91.4% |
| 07 Energy Efficiency and Conservation Programs, All Other Sectors | 5,821,143 | 10,214,396 | 5,058,029 | - 5,156,367 | - 50.5% |
| 08 Renewable and Clean Energy Programs and Initiatives | 16,386,965 | 20,200,000 | 29,869,721 | 9,669,721 | 47.9% |
| Total Expenditures | \$ 33,231,464 | \$ 41,661,284 | \$ 49,740,851 | \$ 8,079,567 | 19.4% |
| Special Fund | \$ 32,024,319 | \$ 37,134,845 | \$ 48,547,908 | \$ 11,413,063 | 30.7% |
| Federal Fund | 1,073,034 | 4,374,806 | 1,042,656 | - 3,332,150 | - 76.2% |
| Total Appropriations | \$ 33,097,353 | \$ 41,509,651 | \$ 49,590,564 | \$ 8,080,913 | 19.5% |
| Reimbursable Fund | \$ 134,111 | \$ 151,633 | \$ 150,287 | - \$ 1,346 | - 0.9% |
| Total Funds | \$ 33,231,464 | \$ 41,661,284 | \$ 49,740,851 | \$ 8,079,567 | 19.4% |

Note: The fiscal 2020 appropriation does not include deficiencies, planned reversions, or general salary increases. The fiscal 2021 allowance does not include contingent reductions or general salary increases.