# Department of Legislative Services

Maryland General Assembly
2024 Session

## FISCAL AND POLICY NOTE
## First Reader

Senate Bill 935 (Senator Gallion)

Education, Energy, and the Environment

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**Department of General Services - Renewable Natural Gas Pilot Program - Establishment**

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This bill requires, by January 1, 2025, the Department of General Services (DGS), in consultation with the Public Service Commission (PSC), to establish a Renewable Natural Gas Pilot Program. Under the program, DGS, in consultation with PSC, must issue a competitive sealed procurement solicitation for renewable natural gas and may enter into at least one contract to procure renewable natural gas for the State. DGS must also (1) collect specified greenhouse gas (GHG) emissions reduction data; (2) require that the generator or other appropriate entity of renewable natural gas procured under the program complete a carbon lifecycle analysis, as specified; and (3) analyze the economic benefits and costs of expanding the use of renewable natural gas in the transportation and building sectors in the State. The pilot program terminates December 31, 2027. **The bill terminates June 30, 2028.**

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## Fiscal Summary

**State Effect:** General fund expenditures increase by $70,100 in FY 2025 for staffing; out-years reflect annualization, inflation, and the termination of contractual staff at the end of FY 2028. State expenditures (all funds) increase, potentially significantly, through FY 2028 to purchase renewable natural gas. No effect on revenues.

| (in dollars) | FY 2025 | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
|---|---|---|---|---|---|
| Revenues | $0 | $0 | $0 | $0 | $0 |
| GF Expenditure | 70,100 | 80,500 | 84,000 | 87,600 | 0 |
| Exp. (All Funds) | - | - | - | - | 0 |
| Net Effect | (-) | (-) | (-) | (-) | $0 |

*Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease*

**Local Effect:** None.

**Small Business Effect:** Minimal.

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## Analysis

**Bill Summary:** The purpose of the pilot program is to procure renewable natural gas for use as a fuel in the State's transportation and building sectors to evaluate the economic benefits and costs of replacing fossil natural gas with renewable natural gas, on both a short- and long-term basis, in furtherance of the State's net-zero statewide GHG emissions reduction goals.

When issuing an invitation for bids, DGS must take into consideration (1) the cost-effectiveness of the adoption of renewable natural gas; (2) the social cost of GHGs, as defined in current law; and (3) the State's climate commitments under existing provisions of the Environment Article.

Unless sufficient renewable natural gas generated in the State is not reasonably available for the program, renewable natural gas procured through a contract under the program must be generated in the State.

**Current Law:** "Social cost of greenhouse gases" means the most recent social cost of GHGs adopted by the U.S. Environmental Protection Agency.

*Greenhouse Gas Emissions Reduction Targets and the Climate Solutions Now Act of 2022*

The Climate Solutions Now Act (Chapter 38 of 2022) made broad changes to the State's approach to reducing statewide GHG emissions and addressing climate change. Among other things, the Act accelerated previous statewide GHG emissions reductions targets originally established under the Greenhouse Gas Emissions Reduction Act, requiring the State to develop plans, adopt regulations, and implement programs to (1) reduce GHG emissions by 60% from 2006 levels by 2031 and (2) achieve net-zero statewide GHG emissions by 2045.

In December 2023, the Maryland Department of the Environment published *Maryland's Climate Pollution Reduction Plan*, which was developed to implement Chapter 38.

*Governor's Executive Order*

Executive Order 01.01.2023.07, issued May 2023, requires DGS and other State agencies to take a number of steps to reduce electricity consumption in State buildings and reduce GHG emissions, including:

- the Maryland Green Building Council must update the High-Performance Green Building Program to ensure that all new buildings and major renovations align with the State's goal to achieve net-zero GHG emissions by 2045;

- DGS must identify potential candidates for energy savings performance contracts at State-owned facilities, and agencies must provide on-site support to DGS;
- annually, DGS must analyze all State-owned buildings to identify the buildings with the highest energy use per square foot and the greatest GHG emissions;
- annually, DGS must conduct an energy and GHG emissions audit of at least two million square feet of State-owned buildings;
- the audits must include best practices and identify low-cost measures for increasing energy efficiency and reducing GHG emissions;
- State agencies that receive energy audits must implement the identified measures to the fullest extent practicable;
- for one year following implementation, DGS must monitor each agency's energy use and GHG emissions, track changes resulting from the measures, and calculate any energy cost savings;
- reductions in energy consumption and GHG emissions resulting from energy-saving initiatives must be recorded in a Comprehensive Utility Records Management Database;
- each unit of State government must, each month or by request, provide DGS with access to available data about its facility and copies of the unit's utility bills;
- DGS must gather the data and information necessary to fully populate, update, and maintain the database;
- all units of State government must, in support of their core missions, implement projects and initiatives to conserve energy and reduce their GHG emissions; and
- provisions promoting the State's energy efficiency GHG emissions goals must be included in requests for proposals for space to be leased to the State that would obligate the State to pay utility bills for the leased space.

**State Expenditures:**

*Administrative Expenses*

Although DGS is responsible for purchasing electricity on behalf of the State, DGS advises that the University of Maryland, College Park Campus (UMCP) purchases natural gas on behalf of the State. According to DGS, UMCP makes natural gas available to State agencies through a retail agreement for small accounts and a wholesale agreement for major contracts, which make up about 90% of all purchases. UMCP advises that the wholesale contracts are hedged, whereas the retail contracts are for three to five years and are purchased through a closed bid process.

As neither DGS nor PSC has expertise purchasing natural gas, DGS requires an additional procurement staff person with expertise in natural gas and renewable natural gas purchasing. As the bill establishes a pilot program that ends in less than four years, contractual staff is appropriate.

Therefore, general fund administrative expenditures for DGS increase by $70,051 in fiscal 2025, which accounts for the bill's October 1, 2024 effective date. This estimate reflects the cost of hiring one contractual procurement officer with expertise in natural gas and renewable natural gas procurement to develop and then manage the pilot program. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

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|---|---|
| Contractual Position | 1.0 |
| Salary and Fringe Benefits | $62,795 |
| Operating Expenses | 7,256 |
| **Total FY 2025 DGS Administrative Expenditures** | **$70,051** |

Future year administrative expenditures reflect (1) a full salary with annual increases and employee turnover; (2) annual increases in ongoing operating expenses; and (3) the termination of the contractual position at the end of fiscal 2028, consistent with the bill's termination date.

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

It is assumed that PSC can consult with DGS as needed using existing budgeted resources.

*Renewable Natural Gas Purchases*

As the program established by the bill is a pilot program and DGS does not normally procure natural gas, it is not clear if the program will supplement or supplant some or all of the natural gas purchased by UMCP. In either case, renewable natural gas is generally more expensive than fossil natural gas; according to UMCP, it costs between 15 and 25 times more per unit than fossil natural gas. Assuming DGS makes renewable natural gas that it purchases available to other agencies, State expenditures (all funds) likely increase to purchase renewable natural gas under the pilot program. The increase may be significant depending on the amount of renewable natural gas ultimately purchased under the pilot program.

## Additional Information

**Recent Prior Introductions:** Similar legislation has not been introduced within the last three years.

**Designated Cross File:** HB 1379 (Delegates Adams and Arentz) - Economic Matters.

**Information Source(s):** Maryland Department of the Environment; Department of General Services; Public Service Commission; University System of Maryland; Department of Legislative Services

**Fiscal Note History:** First Reader - March 1, 2024
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