

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 418
 Economic Matters

(Delegate Doory, *et al.*)

Finance

Solar Energy Grant Fund

This bill establishes a Solar Energy Grant Fund as a special, nonlapsing fund used to award grants under the Solar Energy Grant Program. The fund is supplemental to and not intended to take the place of funding that otherwise would be appropriated for the program.

The fund would primarily consist of compliance fees collected from electricity suppliers for not meeting the Renewable Energy Portfolio Standard (RPS) and any appropriated general funds. The amount of compliance fees paid into the fund is capped at \$1 million each year. Moreover, should that source of funding be insufficient, the bill requires the Governor to include in the annual budget bill a general fund appropriation to bring the fund balance to \$1 million at the start of the fiscal year.

The bill takes effect June 1, 2006.

Fiscal Summary

State Effect: General fund expenditures would increase by \$1 million in FY 2008 and up to \$1 million annually thereafter. Special fund revenues and expenditures would increase by at least \$1 million annually, beginning in FY 2008.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	-	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
GF Expenditure	0	1,000,000	-	-	-
SF Expenditure	-	1,000,000	1,000,000	1,000,000	1,000,000
Net Effect	\$0	(\$1,000,000)	\$0	\$0	\$0

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

Local Effect: To the extent local governments invest in photovoltaic or solar water heating property and benefit from the bill's additional funding, they would experience an increase in revenue.

Small Business Effect: Potential meaningful. Additional funding for the program would provide additional business for small businesses that install photovoltaic and solar water heating property, as well as stability for their decisions about future investment.

Analysis

Bill Summary: The bill requires that one-half of the compliance fees collected from electricity suppliers for shortfalls in obtaining required renewable energy credits under the RPS be paid to the Solar Energy Grant Fund, but not more than \$1 million each fiscal year. These fees are currently paid into the Maryland Renewable Energy Fund, to which one-half of the compliance fees would continue to be paid.

The Governor must include in the annual budget bill a proposed general fund appropriation to bring the fund balance to \$1 million at the start of the fiscal year. The amount of the appropriation must take into account expenditures from the fund during the preceding fiscal year and the amount of RPS compliance fees collected. In addition, the general fund appropriation cannot exceed the amount needed to bring the fund balance to \$1 million.

The fund is administered by the Maryland Energy Administration (MEA) subject to oversight by the Public Service Commission (PSC). The fund consists of compliance fees, money appropriated in the State budget to the fund, investment earnings, and money from any other source accepted for the benefit of the fund. The fund may only be used to award grants under the Solar Energy Grant Program, though up to 10% of the funds may be used for administrative expenses. The fund is intended to be supplemental to funds otherwise appropriated for the program.

Current Law:

Solar Energy Grant Program

The Solar Energy Grant Program, which is funded with general funds, is administered by MEA. Grants are awarded for the acquisition and installation of photovoltaic and solar water heating property that meet applicable performance and quality standards and certification requirements specified by MEA. **Exhibit 1** lists the current grant limits.

Exhibit 1
Grant Award Limits under the Solar Energy Grant Program

Grant Award Limits
(the lesser of \$ amount or %
of total installed cost)

Photovoltaic property (residential)	\$3,000 – 20%
Photovoltaic property (nonresidential)	\$5,000 – 20%
Solar water heating property	\$2,000 – 20%

Renewable Energy Portfolio Standard

The RPS, aimed at establishing a market for renewable energy in Maryland, is implemented by PSC and applies to all retail electricity sales in the State by electricity suppliers, subject to certain exceptions, including retail sales to residential customers currently under a rate cap. An electricity supplier is required to include a specified amount of renewable energy as part of its portfolio of generating fuels for its retail sales, and must pay a specified amount per kilowatt hour for any shortfall from the RPS. These compliance fees are paid into the Maryland Renewable Energy Fund, the money from which is intended to be used to make loans and grants for the creation of renewable energy sources in the State.

Background: The Solar Energy Grant Program was created by Chapter 128 of 2004, which took effect January 1, 2005. The fiscal 2006 budget included a \$75,000 general fund appropriation for the program. MEA began accepting grant applications in August 2005 and had reached the program's funding capacity by December 2005. The fiscal 2007 budget includes \$1.5 million in general funds for the program, a \$1.425 million increase over the fiscal 2006 legislative appropriation.

The RPS was established by Chapter 488 of 2004.

State Fiscal Effect: Electricity suppliers are required to submit a report to PSC on June 1 of each year, either accompanied by the required amount of renewable energy credits to meet the RPS or demonstrating the amount of electricity sales by which the supplier failed to meet the standard. Compliance fees must be paid for any shortfall. Revenue is not expected to be generated in fiscal 2007 from RPS compliance fees. Because renewable energy credits, which electricity suppliers may use to meet the RPS, are sufficiently inexpensive relative to compliance fees, PSC expects electricity suppliers to meet the RPS. PSC was not able to predict whether fees would be generated in the future.

Assuming revenue is not generated from RPS compliance fees in fiscal 2007 and no money from other sources accrues to the fund, the fund would not be capitalized in fiscal 2007. The Governor would be required to include a \$1 million general fund appropriation for the fund in the fiscal 2008 budget bill. General fund expenditures would therefore increase by \$1 million in fiscal 2008. Future year general fund expenditures could increase by up to \$1 million annually, depending on the amount needed to bring the fund balance to \$1 million at the start of each fiscal year. If RPS compliance fees began to accrue to the fund, the amount of the general fund appropriation could decrease from \$1 million.

Assuming money does not accrue to the fund in fiscal 2007, special fund revenues would increase annually beginning in fiscal 2008 by at least \$1 million, reflecting the amount appropriated for the fund each fiscal year and any RPS compliance fees or funds from other sources that may accrue to the fund in the future. Special fund expenditures would correspondingly increase by at least \$1 million annually, beginning in fiscal 2008, assuming all special fund revenues would be expended each fiscal year.

Small Business Effect: Providing additional funding for the Solar Energy Grant Program would increase the amount of work available for small businesses that install photovoltaic and solar water heating property, assuming the total number of grants awarded would increase. In general, certainty in funding for the program would provide stability for small businesses making decisions about future investment.

Additional Information

Prior Introductions: None.

Cross File: SB 469 (Senator Garagiola, *et al.*) – Finance.

Information Source(s): Maryland Energy Administration, Public Service Commission, Department of Natural Resources, Department of Legislative Services

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Analysis by: Scott D. Kennedy

Direct Inquiries to:
(410) 946-5510
(301) 970-5510