SB 469

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 469 (Senator Garagiola, *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. Revenue is intended to accrue to the fund primarily from compliance fees collected from electricity suppliers for not meeting the Renewable Energy Portfolio Standard (RPS), and secondarily from an annual contingent transfer from the Environmental Trust Fund (ETF).

Fiscal Summary

State Effect: Special fund (ETF) expenditures will increase to the extent the ETF fund balance, that otherwise would not be expended, is transferred to the new fund. Up to $1 million could be transferred from the ETF annually, beginning in FY 2008. If $1 million were transferred annually, the current fund balance would be depleted by FY 2010. At that point, special fund (ETF) revenues may increase (if additional revenue can be generated under the current 0.15 mill/kWh environmental surcharge limit), but it is unclear by how much.

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

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. At the beginning of each fiscal year, if the balance of the Solar Energy Grant Fund is less than $1 million, funds must be transferred from the ETF to bring the balance of the Solar Energy Grant Fund to $1 million. The amount to be transferred is determined by the difference between $1 million and the amount of compliance fees paid into the fund in the previous fiscal year.

The fund is administered by the Maryland Energy Administration (MEA) and subject to oversight by the Public Service Commission (PSC). The fund consists of compliance fees, funds transferred from the ETF, 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.

Environmental Trust Fund

Revenues accrue to the ETF from an environmental surcharge placed on all retail electricity sales in the State. The fund primarily supports the Power Plant Research Program (PPRP) administered by the Department of Natural Resources and other programs relating to environmental conservation and production of electric energy. The environmental surcharge is set by PSC, based on a budget prepared by the Secretary of Natural Resources for the PPRP and other programs supported by the fund. The surcharge may not exceed 0.15 mill (one-thousandth of \$1) per kilowatt hour or \$1,000 per month for a single retail electricity customer and has a sunset date of June 30, 2010. The ETF's end of year balance in fiscal 2005 was \$3 million and is projected to be \$3.1 million and \$2.4 million in fiscal 2006 and 2007, respectively.

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 Governor's proposed fiscal 2007 budget includes $2.575 million in general funds for the program, a $2.5 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.

In the absence of RPS compliance fees, the Solar Energy Grant Fund would rely on annual transfers from the ETF, of up to $1 million annually. The ETF is expected to have an ending year balance of $3.1 million at the end of fiscal 2006 and $2.4 million in fiscal 2007. Assuming the ETF balance would otherwise remain constant and would not be spent elsewhere in the out-years, the transfers to the fund could deplete the balance by as early as fiscal 2010, assuming RPS compliance fees did not accrue to the fund in that time. Special fund expenditures, therefore, would increase to the extent the ETF fund balance, that otherwise would not be expended, is transferred to the new fund.

The environmental surcharge, that generates revenue for the ETF, is set by PSC in order to generate enough revenue to cover the expenses of the budget prepared by the Secretary of Natural Resources for the PPRP and other related programs. Presumably, when the ETF balance had been depleted, the Secretary would need to take into account the projected amount of funds that would need to be transferred to the Solar Energy Grant Fund at the beginning of each fiscal year in preparing the budget for the PPRP, which could be up to $1 million annually. Because of the 0.15 mill/kWh maximum imposed on the environmental surcharge under State law, it is unclear whether PSC would be able to set the environmental surcharge at a level that would generate enough revenue to meet the needs of the PPRP budget and an annual transfer of up to $1 million (discussed below). If there is room under the 0.15 mill/kWH maximum to increase the surcharge beyond what is required to generate revenue sufficient to meet the PPRP budget (without the up to $1 million transfer), special fund (ETF) revenues could increase, but it is unclear by how much. Therefore, special fund (ETF) expenditures could increase by up to $1 million annually, due to the mandated transfer to the new fund, beyond the depletion of the ETF fund balance.

The environmental surcharge is currently set at 0.1315 mill/kWh and under current law it cannot go above 0.15 mill/kWh. PSC and DNR advise that in recent fiscal years, the surcharge has been at the maximum of 0.15 mill/kWh and was reduced in fiscal 2006 due to a decision by DNR to submit to PSC a reduced budget estimate (reducing the surcharge), and to supplement the surcharge revenues with a portion of the ETF fund balance to fund the PPRP budget.

DNR advises that the environmental surcharge will need to return to the maximum of 0.15 mill/kWh to sufficiently fund the PPRP in the future. Based on the estimated revenue accruing to the ETF in fiscal 2006 ($8.8 million) and the appropriated expenditures for fiscal 2006 ($8.7 million), it appears that the PPRP and other programs will be sufficiently funded by the environmental surcharge, set at 0.1315 mill/kWh, and the ETF will retain an accumulated balance of roughly $3 million. This indicates there may be room for revenues in excess of the PPRP budget, in future years, to be brought into the ETF by raising the environmental surcharge to 0.15 mill/kWh. However, it is unclear how much additional revenue would be generated as a result of returning the environmental surcharge to 0.15 mill/kWh.

In future years, once the ETF balance is depleted, if the amount of RPS compliance fees accruing to the Solar Energy Grant Fund and the amount of revenue generated from the environmental surcharge under its current maximum limit do not combine to allow the $1 million beginning-year balance requirement of the Solar Energy Grant Fund to be met and the PPRP and other programs under the ETF to be adequately funded, additional funding may be needed (possibly through general fund expenditures, or through amending State law to raise the environmental surcharge limit), or the budget of the PPRP and other programs would need to be reduced.

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: HB 418 (Delegate Doory, *et al.*) – Economic Matters.

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

Fiscal Note History: First Reader - February 13, 2006
mll/ljm

Analysis by: Scott D. Kennedy

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