

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE

House Bill 1510
Economic Matters

(Delegates Bartlett and Haddaway)

Renewable Energy - Funding

This bill requires an electric company to include an option on a customer's monthly bill to voluntarily add a one-time charge of \$2 to the customer's bill, to be paid to the Maryland Strategic Energy Investment Fund (SEIF) to fund loans and grants to support the creation of new solar energy sources in the State. The bill also amends the Solar Energy Grant Program to be the Solar and Wind Energy Grant Program; specifies a limit on the amount of a grant for wind energy property awarded under the program, with grant amounts subject to specified adjustment by the Maryland Energy Administration (MEA); defines "wind energy property" under the program, limiting wind energy property to equipment that has an installed electricity generation capacity of 25 kilowatts (kW) or less; and increases the limit on installed electricity generation capacity applicable to solar photovoltaic property from 20 to 25 kW or less. The bill also amends the individual income tax subtraction modification applicable to grants received under the Solar Energy Grant Program to apply to grants received under the Solar and Wind Energy Grant Program.

Fiscal Summary

State Effect: Special fund revenues increase annually as a result of contributions made to SEIF by electric customers. The extent of the increase in special fund revenues cannot be reliably estimated, but could be significant. Special fund expenditures also increase annually to the extent funding generated from the electric customer contributions is expended for loans or grants. General fund revenues may decrease annually by a minimal amount as a result of the applicability of the income tax subtraction modification to wind energy grants.

Local Effect: Local government revenues may decrease minimally as a result of the applicability of the income tax subtraction modification to wind energy grants.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: The optional one-time \$2 charge included by an electric company on a customer's bill must appear as a separate line item and an electric company must pay all money collected into SEIF. The bill specifies that money paid into the fund from the optional charge must be accounted for separately within the fund and may be used only to make loans and grants to support the creation of new solar energy sources in the State.

Under the Solar and Wind Energy Grant Program, a grant awarded for wind energy property may not exceed the lesser of \$10,000 or \$1 per kilowatt hour (kWh) of installed electricity generation capacity during the property's first year of operation.

The amended income tax subtraction modification allows for an amount received under the Solar and Wind Energy Grant Program, to the extent included in federal adjusted gross income, to be subtracted from the federal adjusted gross income of a resident to determine Maryland adjusted gross income.

Current Law/Background:

Maryland Strategic Energy Investment Fund

The Maryland Strategic Energy Investment Program and SEIF, which is used to implement the program, were created under Chapters 127 and 128 of 2008 to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy. Currently, the fund's primary source of revenue is proceeds from the sale of carbon dioxide (CO₂) allowances under the Regional Greenhouse Gas Initiative (RGGI). Of the proceeds of allowances sold between March 1, 2009 and June 30, 2011, at least 6.5% must be credited to a renewable and clean energy programs account to be used for, among other things, renewable and clean energy programs and initiatives. Of the proceeds of allowances sold after June 30, 2011, up to 10.5% will be credited to a renewable and clean energy programs account.

Of the SEIF funding from the sale of CO₂ allowances under RGGI included in the proposed fiscal 2011 State budget, \$2.6 million is expected to be allocated for renewable energy projects. The fiscal 2011 budget bill, however, contains a contingent reduction in the special fund appropriation for renewable and clean energy programs and initiatives under MEA of \$279,000, which MEA advises would be subtracted from the \$2.6 million expected to be allocated for renewable energy projects. The reduction is contingent on

the enactment of legislation authorizing the exemption of electric and plug-in electric hybrid vehicles from the vehicle excise tax in fiscal 2011.

SEIF also receives funding from compliance fees paid under the State's renewable energy portfolio standard (RPS), which requires electricity suppliers to meet a portion of their energy supply needs with eligible forms of renewable energy. The compliance fees may only be used to make loans and grants to support the creation of new "Tier 1" renewable energy sources in the State (including solar energy sources). According to a 2010 report on RPS issued by the Public Service Commission (PSC), a total of \$1.2 million in compliance fees was required to be paid for the 2008 RPS compliance year (the most recent year for which information is available).

Solar Energy/Windswept Grant Programs

The Solar Energy Grant Program, administered by MEA, provides grants to individuals, local governments, and businesses for a portion of the costs of acquiring and installing photovoltaic (electricity-generating) and solar water heating property. MEA may adjust grant amounts under the program to reflect market conditions and prevailing prices, but a grant awarded under the program may not exceed: (1) for photovoltaic property, the lesser of \$2,500 per kW of installed electricity generation capacity or \$10,000; and (2) for solar water heating property, the lesser of \$3,000 or 30% of the total installed cost of the solar water heating property. "Photovoltaic property" means solar energy property that, among other things, has an installed electricity generation capacity of 20 kW or less.

An amount received as a grant under the Solar Energy Grant Program, to the extent included in federal adjusted gross income, is subtracted from the federal adjusted gross income of a resident to determine Maryland adjusted gross income, upon which State and local individual income tax liability is based.

MEA currently administers the Windswept Grant Program, which is not established in statute, but provides grants for installation of wind energy systems by small commercial and residential customers. Grant amounts are based on turbine performance and may not exceed \$20,000. To be eligible for a grant, systems must have a capacity of 100 kW or less. MEA's *Maryland Energy Outlook* (2010) indicates that the Windswept Grant Program resulted in 224 kW of deployed capacity in fiscal 2009 and that MEA intends to increase deployment to 400 kW in fiscal 2010.

State Revenues: Special fund revenues increase annually beginning in fiscal 2011 by the aggregate amount of \$2 contributions made to SEIF on electric customers' monthly bills, assuming electric companies are able to provide the option to customers in fiscal 2011. This increase in special fund revenues cannot be reliably estimated, but could be significant. There were at least 2.4 million electric customers in the State as of

December 31, 2007. *For illustrative purposes only*, if 2% of the State's 2.4 million electric customers make a contribution every other month, special fund revenues would increase by \$576,000 annually, while if 10% of the State's electric customers make a contribution every month, special fund revenues would increase by \$5.8 million annually.

Legislative Services notes that contributions may not begin to be collected immediately upon the effective date of the bill to the extent electric companies cannot make necessary changes by that time to be able to offer customers the contribution option. PSC also advises that smaller companies may experience difficulty in offering the option to customers.

To the extent that funding that, in the absence of this bill, would be allocated to the Windswept Grant Program in future years and be taxable as income is instead awarded under the nontaxable Solar and Wind Energy Grant Program, general fund revenues may decrease minimally each year. The amount of grant funding that will be allocated for installation of wind energy systems in future years is uncertain; however, MEA indicates that funding levels for fiscal 2010 and 2011 are expected to be under \$500,000. *For illustrative purposes only*, if \$500,000 in grant funding that otherwise would be taxable were awarded each year as nontaxable grants under the Solar and Wind Energy Grant Program, general fund revenues would decrease by approximately \$24,000.

State Expenditures: Special fund expenditures are assumed to increase annually reflecting the expenditure of funds contributed by electric customers to SEIF for loans and grants to support the creation of new solar energy sources in the State. The extent of the increase in expenditures will depend at least in part on the amount of funding available from contributions and the existence of eligible projects.

Assuming the Windswept Grant Program will be folded into the Solar and Wind Energy Grant Program upon enactment of the bill (as MEA advises it would be), MEA indicates that the limits placed on wind energy grants under the Solar and Wind Energy Grant Program will limit the incentive for installation of wind energy systems and slow deployment statewide. The maximum grant amount available under the bill for the Solar and Wind Energy Grant Program for wind energy systems is \$10,000, whereas the Windswept Grant Program has a limit of \$20,000. MEA indicates that the Windswept Grant Program has been carefully tailored to maximize the rate of deployment of wind energy. MEA also indicates that establishing limits applicable to wind energy grants in statute may prevent adaptation of the program to changing standards and technology.

It is assumed that any reduction in grant funding awarded for wind energy systems as a result of the limits under the bill will not significantly affect overall State expenditures for renewable energy projects. MEA indicates that grant funding not able to be awarded for wind energy systems as a result of the bill's limitations would likely end up being

used for other renewable energy or energy efficiency purposes. Grants under the Windswept program have recently transitioned to being supported with federal stimulus funding (as of January 1, 2010), though future funding for grants under the program likely will come from SEIF once federal funding is no longer available.

Local Fiscal Effect: To the extent funding that, in the absence of this bill, would be allocated to the Windswept Grant Program in future years and be taxable as income is instead allocated to the nontaxable Solar and Wind Energy Grant Program, local government income tax revenues may decrease minimally each year. *For illustrative purposes only*, if \$500,000 in grant funding that otherwise would be taxable were awarded each year as nontaxable grants under the Solar and Wind Energy Grant Program, local government revenues would decrease collectively by approximately \$15,000.

Local governments, however, may benefit from any additional funding available for loans and grants to support the creation of new solar energy sources in the State from contributions made by electricity customers to the extent local governments are able to apply for and receive such funding.

Small Business Effect: Small businesses involved in the installation of solar and wind energy systems may be meaningfully impacted by the bill. MEA indicates that small businesses that install solar energy systems may see an increase in demand if more funding is available for solar energy grants as a result of contributions made by electric customers. Presumably small businesses interested in installing a solar energy system may also benefit from the availability of additional funding.

However, conversely, MEA indicates that if the Windswept Grant Program is folded into the Solar and Wind Energy Grant Program, the limits of the Solar and Wind Energy Grant Program will have a negative impact on small businesses that rely on the grant incentives to increase demand for, and affordability of, wind energy technology.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Energy Administration, Public Service Commission, Comptroller's Office, Department of Natural Resources, Baltimore Gas and Electric Company, Department of Legislative Services

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