SB 706

Department of Legislative Services

Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 706 (Senator Hershey)
Education, Energy, and the Environment

Renewable Energy Portfolio Standard - Alterations

This bill decreases the Renewable Energy Portfolio Standard (RPS) percentage requirements for Tier 1 renewable sources beginning with compliance year 2027. Specifically, the RPS for Tier 1 renewable sources is reduced from (1) 41.5% to 26.0% in 2027; (2) 43.0% to 27.5% in 2028; (3) 49.5% to 34.0% in 2029; and (4) 50.0% to 34.5% in 2030 and each year thereafter. (The existing Tier 1 carve-outs for solar, offshore wind, and post-2022 geothermal systems are not altered by the bill.) A presently existing obligation or contract right may not be impaired in any way by the bill, and the bill applies to all RPS compliance years beginning after December 31, 2026.

Fiscal Summary

State Effect: Special fund revenues for the Strategic Energy Investment Fund (SEIF) from alternative compliance payments (ACPs) decrease significantly – likely by at least tens of millions of dollars annually – beginning in FY 2028, as discussed below. While the bill does not *directly* affect SEIF expenditures, less revenue is available for spending, as discussed below. The potential effect on electricity prices is discussed in the Additional Comments section below.

Local Effect: Local government finances are affected, as discussed below. The potential effect on electricity prices is discussed in the Additional Comments section below.

Small Business Effect: Potential meaningful. The potential effect on electricity prices is discussed in the Additional Comments section below.

Analysis

Current Law:

Renewable Energy Portfolio Standard

The Public Service Commission administers the State RPS, which requires that renewable sources generate specified percentages of Maryland's electricity supply each year. Utilities and other electricity suppliers must submit renewable energy credits (RECs) equal to these percentages in each year or else pay an ACP equivalent to the shortfall.

For compliance year 2026, the requirements are 38.0% from Tier 1 sources, including at least 8.0% from solar and 0.5% from post-2022 geothermal systems, plus 2.5% from Tier 2 sources. For 2027 and future compliance years, the requirements are set as follows:

- 2027 – 41.5% from Tier 1 sources, including at least 9.5% from solar and 0.75% from post-2022 geothermal systems;
- 2028 – 43.0% from Tier 1 sources, including at least 11.0% from solar and 1.0% from post-2022 geothermal systems;
- 2029 – 49.5% from Tier 1 sources, including at least 12.5% from solar and 1.0% from post-2022 geothermal systems; and
- 2030 and later – 50.0% from Tier 1 sources, including at least 14.5% from solar and 1.0% from post-2022 geothermal systems.

For more information on Maryland's RPS, see the **Appendix – Renewable Energy Portfolio Standard**.

Strategic Energy Investment Fund

Chapters 127 and 128 of 2008 created the Maryland Strategic Energy Investment Program in the Maryland Energy Administration (MEA), and the implementing SEIF (administered by MEA), to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy. Among other revenue sources, SEIF receives funding from the auction of carbon allowances under the Regional Greenhouse Gas Initiative and ACP revenues generated under the State's RPS. Additionally, SEIF will receive a portion of corporate income tax revenues from qualified data centers that are operational on or after January 1, 2026.

ACP revenues, except as specified, must only be used to support the creation of new renewable energy sources in the State that are owned by or directly benefit low- to moderate-income, overburdened, or underserved communities. For fiscal 2026

only, up to $100.0 million of ACP revenues may be used for solar development on State government property and local government clean energy projects. Additionally, through the end of fiscal 2027, at least 20% of ACP revenues resulting from solar energy requirements under the RPS must be used to provide grants to support the installation of new solar energy generating systems under the Customer-Sited Solar Program. Finally, pursuant to Chapters 625 and 626 of 2025 (the Next Generation Energy Act), ACP revenues may be used to provide grants to electric companies to be refunded or credited to each residential distribution customer based on the customer's consumption of electricity supply that is subject to the RPS.

State Fiscal Effect: The bill reduces RPS percentage requirements for Tier 1 sources significantly beginning in compliance year 2027. As a result, SEIF revenues (derived from ACPs) decrease significantly, likely by at least tens of millions of dollars annually, beginning in fiscal 2028. While the bill does not *directly* affect SEIF expenditures, less revenue is available for spending beginning in fiscal 2028, as discussed below.

Strategic Energy Investment Fund Revenues from Alternative Compliance Payments

As shown below in **Exhibit 1** of the Appendix, SEIF revenues reached an all-time high of $616.9 million in compliance year 2024. Of that total, $362.3 million was derived from ACPs (including $37.2 million from solar ACPs). The Department of Legislative Services (DLS) notes that most of the increase in SEIF revenues in recent years is attributable to an increase in ACPs.

Beginning in fiscal 2028, MEA estimates that ACP revenues decrease by $88.5 million annually under the bill. DLS is unable to independently verify MEA's estimate at this time; however, based on recent RPS compliance trends and due to the bill's significant reduction in RPS percentage requirements for Tier 1 sources, DLS concurs that SEIF revenues derived from ACPs decrease significantly beginning in fiscal 2028. While the magnitude of the decrease depends on a number of dynamic factors and, therefore, cannot be reliably estimated at this time, DLS anticipates that SEIF revenues decrease by at least tens of millions of dollars annually beginning in fiscal 2028. (It should be noted that the bill is not anticipated to affect SEIF revenues derived from solar ACPs, as the bill does not alter the Tier 1 carve-out for solar.)

Strategic Energy Investment Fund Expenditures

As discussed above, the decrease in ACP revenues resulting from the bill is likely to be significant. While the bill does not *directly* affect SEIF expenditures, less revenue is available for spending from SEIF beginning in fiscal 2028. As a result, to the extent that ACP revenues are not sufficient to cover planned spending beginning in fiscal 2028, MEA may need to reduce spending on programs funded with ACP revenues. MEA programs that

may be affected include the Solar Resiliency Hubs Program, the Solar Energy Equity Program, the Decarbonizing Public Schools Program, the Customer-Sited Solar Grant Program, and the Local Government Energy Modernization (L-GEM) Program.

DLS notes that spending of SEIF ACP funding under the fiscal 2027 budget as introduced (with certain appropriations contingent on the enactment of other legislation) is estimated to leave only $242,830 in SEIF ACP funding remaining at the end of fiscal 2027.

Local Fiscal Effect: As recipients of funding from MEA under ACP-supported programs, local governments may be negatively affected to the extent MEA reduces spending on those programs, as discussed above. For example, MEA could reduce funding for the L-GEM Program, which supports local governments as they engage in sustainable, long-term clean energy and energy efficient projects. Local governments, as electric customers, are also affected by any change in electricity rates, as discussed in the Additional Comments section below.

Small Business Effect: Similar to local governments, small businesses may be affected as eligible recipients of funding from MEA under ACP-supported programs. In addition, all small businesses, and particularly small businesses with significant electricity use, are affected by any change in electricity rates, as discussed in the Additional Comments section below.

Additional Comments: Beginning in compliance year 2027, the significant reduction in the State's Tier 1 RPS requirements is likely to result in a decrease in electricity rates, reflecting reduced ACP expenditures by electricity suppliers relative to current law. Electricity rates may also decrease to the extent that the bill results in lower REC prices. Holding other factors constant, a decrease in the State's Tier 1 RPS requirements decreases the demand for Tier 1 RECs and thus exerts downward pressure on REC prices. While a reliable estimate of the potential decrease in REC prices cannot be made, any decrease in REC prices will proportionally reduce compliance costs and, ultimately, customer rates.

Any decrease in electricity rates resulting from the bill reduces electricity costs for all customers, including the State, local governments, and small businesses.

Additional Information

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

Designated Cross File: None.

Information Source(s): Maryland Energy Administration; Office of People's Counsel; Public Service Commission; Department of Legislative Services

Fiscal Note History: First Reader - February 26, 2026
caw/lgc

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Appendix – Renewable Energy Portfolio Standard

General Overview

Maryland's Renewable Energy Portfolio Standard (RPS) was enacted in 2004 to facilitate a gradual transition to renewable sources of energy. There are specified eligible ("Tier 1" or "Tier 2") sources as well as carve-outs for solar, offshore wind, and geothermal. Electric companies (utilities) and other electricity suppliers must submit renewable energy credits (RECs) equal to a percentage of their retail electricity sales specified in statute each year or else pay an alternative compliance payment (ACP) equivalent to their shortfall. Historically, RPS requirements have been met almost entirely through RECs, with negligible reliance on ACPs; however, as discussed further below, that has not been the case more recently. Generally, the Maryland Energy Administration must use ACPs for purposes related to renewable energy, as specified.

In 2026, the requirements are 38.0% from Tier 1 sources, including at least 8.0% from solar and 0.50% from post-2022 geothermal systems, plus 2.5% from Tier 2 sources.

Recent Significant Changes to Overall Percentage Requirements

- Chapter 757 of 2019 significantly increased the percentage requirements, which now escalate over time to a minimum of 50% from Tier 1 sources, including 14.5% from solar, by 2030.

- Chapter 673 of 2021 reduced the amount of solar energy required under the RPS each year from 2022 through 2029, while leaving the nonsolar requirement generally unchanged, before realigning with the previous requirements beginning in 2030. The Act also extended Tier 2 in perpetuity at 2.5%.

- Chapter 164 of 2021 created a carve-out for post-2022 geothermal systems in Tier 1 beginning in 2023.

Limited Applicability to Municipal Electric Utilities and Electric Cooperatives

As RPS percentage requirements have grown over time, legislation has been enacted to limit the effect on municipal electric utilities and electric cooperatives. Tier 1 percentage requirements for municipal electric utilities are limited to 20.4% in total beginning in 2021, including at least 1.95% from solar energy and up to 2.5% from offshore wind. Municipal electric utilities are also exempt from Tier 2 after 2021. Electric cooperatives are exempt

from future increases to the solar carve-out beyond 2.5%, and the RPS does not apply to Choptank Electric Cooperative.

Renewable Energy Credits

Generally, a REC is a tradable commodity equal to one megawatt-hour of electricity generated or obtained from a renewable energy generation resource. In other words, a REC represents the "generation attributes" of renewable energy – the lack of carbon emissions, its renewable nature, etc. A REC has a five-year life during which it may be transferred, sold, or redeemed. REC generators and electricity suppliers are allowed to trade RECs using a Public Service Commission (PSC) approved system known as the Generation Attributes Tracking System, a trading platform designed and operated by PJM Environmental Information Services, Inc., that tracks the ownership and trading of RECs.

Eligible Sources

Tier 1 sources include wind (onshore and offshore); solar (photovoltaic and certain water-heating systems); qualifying biomass; methane from anaerobic decomposition of organic materials in a landfill or wastewater treatment plant; geothermal; ocean, including energy from waves, tides, currents, and thermal differences; a fuel cell that produces electricity from specified sources; a small hydroelectric plant of less than 30 megawatts; poultry litter-to-energy; thermal energy from a thermal biomass system; and raw or treated wastewater used as a heat source or sink for heating or cooling. Tier 2 includes only large hydroelectric power plants.

Chapter 673 excluded black liquor, or any product derived from black liquor, from Tier 1 beginning in 2022, although some black liquor RECs remain eligible through the duration of certain contracts. Chapters 625 and 626 of 2025 removed waste-to-energy and refuse-derived fuel from RPS eligibility. The exclusion generally applies to all RPS compliance years starting on or after January 1, 2025, except for a facility owned by a public instrumentality of the State (*i.e.*, Montgomery County), which applies beginning July 1, 2026.

Trends in Compliance Costs, Renewable Energy Credit Prices, and Resources Used

Compliance costs for electricity suppliers totaled $616.9 million in 2024: $254.7 million for 7.0 million RECs and $362.3 million in ACPs. This continues a multi-year trend of increasing overall compliance costs, reliance on ACPs, and REC prices. Of note, 2024 continues the trend of 2023 that ACPs have been used in a significant way for general Tier 1 compliance. In fact, 2024 had the fewest RECs retired since 2014. ACP prices were in many instances less expensive than REC prices and, as a result, suppliers chose to pay

the ACP rather than retire RECs. Compliance costs and REC prices for the most recent five-year period are shown in **Exhibit 1**.

Exhibit 1
RPS Compliance Costs and REC Prices
2020-2024

	2020	2021	2022	2023	2024
Compliance Costs ($ Millions)					
RECs					
Tier 1	$99.8	$187.3	$246.5	$124.9	$90.1
Tier 1 Solar	122.9	144.4	101.4	109.6	150.4
Tier 1 Geothermal	n/a	n/a	n/a	0.1	2.2
Tier 2	0.4	1.0	4.4	9.3	12.0
RECs Subtotal	***$223.1***	***$332.7***	***$352.3***	***$243.8***	***$254.7***
ACPs					
Tier 1	$0.0	$0.2	$0.7	$262.4	$319.4
Tier 1 Solar	0.0	76.9	85.9	56.0	37.2
Tier 1 Geothermal	n/a	n/a	n/a	1.6	4.4
Tier 2	0.0	0.0	0.0	0.4	1.3
ACPs Subtotal	***$0.1***	***$77.1***	***$86.6***	***$320.4***	***$362.3***
Total	**$223.2**	**$409.8**	**$438.9**	**$564.2**	**$616.9**
Average REC Price ($)					
Tier 1	$8.24	$14.36	$17.80	$24.61	$27.09
Tier 1 Solar	$66.10	$72.59	$57.80	$56.67	$58.56
Tier 1 Geothermal	n/a	n/a	n/a	$94.47	$94.04
Tier 2	$1.06	$6.45	$7.42	$10.50	$11.16

ACP: alternative compliance payment
n/a: not applicable
REC: renewable energy credit
RPS: Renewable Energy Portfolio Standard

Note: Numbers may not sum to total due to rounding. The post-2022 geothermal system carve-out became effective in 2023.

Source: Public Service Commission

Approximately 45% of RECs used for compliance in 2024 came from in-state resources, up from 35% in 2023. RECs derived from three fuel types, solar (43.4%), black liquor (16.2%), and wind (15.1%), were the predominant sources of Tier 1 compliance in 2024. Maryland facilities generated approximately 5.7 million RECs in 2024: 1.5 million Tier 1 nonsolar RECs, 2.4 million Tier 1 SRECs, and 1.8 million Tier 2 RECs. Many RECs can be used for compliance in both Maryland and other surrounding states, although there are geographic and energy source restrictions.

Related Studies and Reports

PSC must submit an RPS compliance report to the General Assembly each year. The most recent report, which contains historical data through 2024, can be found here.

The Power Plant Research Program (PPRP) in the Department of Natural Resources has frequently been required to conduct RPS studies. PPRP submitted a final report on a comprehensive RPS study in December 2019, which can be found here. PPRP also submitted a related required study on nuclear energy at that time, which can be found here. PPRP's supplemental study on the overall costs and benefits of increasing the RPS to a goal of 100% by 2040 can be found here.

The Department of Legislative Services also issued an RPS report in 2025, which can be found here. The report contains additional detail on the program, significant statutory changes, and visualizations of planned and actual RPS percentage requirements over time.