

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 669 (Senators Harris and Brooks)
Education, Energy, and the Environment

Small Solar Energy Generating System Incentive Program - Eligibility and
Generating Capacity

This bill extends the deadline by which a solar energy generating system must be placed in service to be eligible for certification under the Small Solar Energy Generating System Incentive Program from January 1, 2028, to January 1, 2031. Additionally, for certified systems with a generating capacity of between 20 kilowatts and 5 megawatts, the bill increases the total amount of in-state generating capacity authorized under the program from 270 to 540 megawatts.

Fiscal Summary

State Effect: Special fund revenues for the Maryland Energy Administration (MEA) decrease by an indeterminate amount, beginning in FY 2028, as a result of reduced alternative compliance payments (ACPs) to the Strategic Energy Investment Fund (SEIF). The bill does not otherwise materially affect State finances.

Local Effect: The bill is not anticipated to materially affect local government finances or operations.

Small Business Effect: Potential meaningful.

Analysis

Current Law:

Small Solar Energy Generating System Incentive Program

The Brighter Tomorrow Act of 2024 (Chapter 595) required the Public Service Commission (PSC) to establish a Small Solar Energy Generating System Incentive

Program and begin determining eligibility by January 1, 2025. Under the program, a solar energy generating system that meets specified requirements and is certified by PSC generates certified solar renewable energy credits (SRECs), which have a compliance value of 150%, for electricity suppliers to put toward meeting the solar carve-out for Maryland's Renewable Energy Portfolio Standard (RPS). The total amount of in-state generating capacity for certified systems under the program may not exceed (1) 300 megawatts for systems with a generating capacity of less than 20 kilowatts and (2) 270 megawatts for systems with a generating capacity between 20 kilowatts and 5 megawatts.

To be eligible for certification, a solar energy generating system must:

- be located in the State;
- be eligible for inclusion in meeting the State RPS;
- have a generating capacity of no more than 5 megawatts;
- be placed in service between July 1, 2024, and January 1, 2028, inclusive; and
- be a system with a generating capacity of (1) no more than 20 kilowatts; (2) no more than 2 megawatts, if the system is used for aggregate net metering; or (3) between 20 kilowatts and 5 megawatts, if the system is located on a rooftop, a parking canopy, a brownfield, or a water retention pond or quarry currently or previously designated for industrial use.

The Act specifies the process for the owner of a solar energy generating system to apply to PSC for certification under the program. At the time of certification, the owner must pay PSC a one-time per-system fee of up to \$50, or up to \$200, depending on the system size. PSC must use the fees to pay for costs associated with administering the program.

A certified system must continue to be eligible to generate certified SRECs for 15 years after the date of certification by PSC, or January 1, 2025, whichever is later, after which the system is eligible to generate noncertified SRECs as long as the system meets the requirements as a Tier 1 renewable resource. An electricity supplier may apply certified SRECs toward RPS compliance starting with the 2025 compliance year.

Other Solar Incentives

State law establishes multiple incentives for solar energy generating systems of different types, sizes, and locations. For an overview of notable incentives, see the **Appendix – Incentives for Solar Energy Generating Systems**.

Renewable Energy Portfolio Standard and Solar Energy Shortfall

The State's RPS was enacted in 2004 to facilitate a gradual transition to renewable sources of energy. It establishes eligibility tiers (Tier 1 and Tier 2) and includes carve-outs for solar, offshore wind, and geothermal, and requires renewable sources to 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 alternative compliance payment equivalent to the shortfall.

Unlike most other sources of renewable energy, solar is eligible for inclusion in meeting the State RPS only if the source is connected with the electric distribution grid serving Maryland. Information on the ongoing solar shortfall can be found in the fiscal 2026 operating budget [analysis](#) for MEA prepared by the Department of Legislative Services (DLS).

For 2026, RPS 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 more information on Maryland’s RPS, see the **Appendix – Renewable Energy Portfolio Standard**.

Strategic Energy Investment Fund

In General

Chapters 127 and 128 of 2008 created the Maryland Strategic Energy Investment Program and the implementing SEIF to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy. SEIF’s primary sources of revenue are the ACP revenues generated under the State’s RPS and proceeds from the sale of carbon dioxide emissions allowances under the Regional Greenhouse Gas Initiative.

Alternative Compliance Payment Revenues

As mentioned above, the State RPS requires that renewable sources generate specified percentages of Maryland’s electricity supply each year (including specified percentages that must be derived from solar energy). Utilities and other electricity suppliers must submit RECs equal to these percentages in each year or else pay an ACP equivalent to the shortfall, including an ACP associated with any shortfall from the percentages that must be derived from solar energy (a “solar ACP”). The ACP revenues paid into SEIF are used for (1) several efforts that fund renewable and clean energy deployment; (2) administrative expenses of MEA, which administers SEIF; and (3) electric bill refunds or credits to residential distribution customers, as authorized under Chapters 625 and 626 (the Next Generation Energy Act) of 2025.

State Revenues: Beginning in fiscal 2028, SEIF revenues (from solar ACPs) decrease by an indeterminate but potentially significant amount as a result of the bill. MEA advises, and DLS agrees, that the magnitude of any decrease in solar ACP revenues cannot be reliably estimated at this time.

As discussed above, there is an ongoing solar shortfall for purposes of the State RPS, which led to historically high solar ACPs of \$85.9 million in calendar 2022. However, solar ACP revenues decreased to \$56.0 million in 2023 and then to \$37.2 million in 2024. This decrease corresponds, at least in part, to an increase in the number of SRECs retired in those two years.

By extending the deadline to place a solar energy generating system into service to qualify for SRECs under the Small Solar Energy Generating System Incentive Program, the bill is likely to increase the number of SRECs generated in fiscal 2028 and future years (a system is eligible to generate SRECs for 15 years after the date it is certified by PSC). Although an increase in SRECs generated does not necessarily result in a corresponding increase in SRECs retired, this analysis assumes some increase in SREC retirements. Accordingly, solar ACP revenues decrease relative to what they otherwise would be absent the bill.

For context, in 2024, solar ACP revenues constituted only 10.3% of overall ACP revenues, which totaled \$362.3 million.

Small Business Effect: Small solar developers may benefit from the bill's extension of the deadline to place solar energy generating systems into service to qualify for certification under the Small Solar Energy Generating System Incentive Program. To the extent that the bill increases the number of systems eligible for certification, small solar developers likely benefit from increased SREC generation and related sales revenue.

Additional Information

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

Designated Cross File: HB 990 (Delegate Behler, *et al.*) - Environment and Transportation.

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

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js/lgc

Analysis by: Ralph W. Kettell

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

Appendix – Incentives for Solar Energy Generating Systems

State law establishes multiple incentives for solar energy generating systems of different types, sizes, and locations. The following is an overview of notable State incentives, which may be combined, depending on the specifics of a particular solar energy generating system.

Production Incentives

Net Metering

Under § 7-306 of the Public Utilities Article, the Public Service Commission (PSC) must require electric companies to develop and make net metering tariffs available to eligible customer-generators. Net metering is the measurement of the difference between the electricity that is supplied by an electric company and the electricity that is generated by the customer and fed back to the grid over the customer's billing period. Under net metering, the customer pays only for energy used, netted against energy generated, plus the fixed monthly customer charge. In the event that more energy is generated than used, the electric company must pay the customer the value of the difference, subject to specified requirements. Generally, net excess generation payments are made annually, although certain customers may instead choose to accrue net excess generation indefinitely.

Generally, the generating capacity of an eligible customer-generator for net metering may be up to 2 megawatts, although there are exceptions allowing for larger capacities, including for community solar. Community solar systems are those that meet specified requirements, have multiple subscribers, and engage in virtual net metering.

There are multiple eligible energy sources for net metering, although most of the installed capacity is solar. The statewide capacity limit is 3,000 megawatts.

Renewable Energy Portfolio Standard

Under Title 7, Subtitle 7 of the Public Utilities Article, which establishes the State Renewable Energy Portfolio Standard (RPS), utilities and other competitive energy 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. Generally, a REC is a tradable commodity equal to 1 megawatt-hour of electricity generated or obtained from a renewable energy generation source. In program compliance year 2026, RPS percentage requirements include 8.0% from solar, which must be connected to the electric distribution grid serving Maryland.

Under § 7-709.1 of the Public Utilities Article, PSC must establish a Small Solar Energy Generating System Incentive Program and begin determining eligibility by January 1, 2025. Under the program, a solar energy generating system that meets specified requirements and is certified by PSC generates certified solar RECs, which have an RPS compliance value of 150%, for 15 years. In addition to other requirements, an eligible system must be placed in service between July 1, 2024, and January 1, 2028, inclusive.

Grant and Loan Incentives

Under § 9-20B-05 of the State Government Article, the Maryland Energy Administration (MEA) must administer the Strategic Energy Investment Fund (SEIF). Among other revenue sources, SEIF receives funds from the sale of carbon dioxide emissions allowances under the Regional Greenhouse Gas Initiative (RGGI) and ACP revenues through the State RPS. RGGI-sourced funding is allocated through a statutory formula that provides significant annual funding for clean energy programs and initiatives, in addition to other purposes. In practice, MEA offers a variety of residential and commercial grants and rebates for different types of solar installations. Generally, solar ACP revenues must be used to support new solar development, although there are additional requirements in certain years.

Tax Incentives

Solar Energy Property Generally Not Subject to State or Local Real Property Tax

Under § 7-242 of the Tax-Property Article, solar energy property is generally not subject to State or local real property tax. “Solar energy property” means equipment that is installed to use solar energy or solar thermal electric energy to generate electricity to be used in a structure or supplied to the electric grid or provide hot water for use in a structure.

Specified Nonresidential Solar Systems Exempt from Valuation or State or Local Property Taxes

Under § 7-249 of the Tax-Property Article, specified nonresidential solar energy generating systems that are constructed on the rooftops of buildings or on parking facility canopies are not subject to valuation or to State or local property taxes. The exemption applies only to a system approved by PSC for a Certificate of Public Convenience and Necessity (CPCN) or CPCN exemption on or after July 1, 2024.

Community Solar Personal Property Tax Exemption

Under § 7-237 of the Tax-Property Article, a community solar energy generating system with up to 5 megawatts of capacity that meets specified requirements is exempt from the

county and municipal personal property tax through the life cycle of the system. To be eligible, a system must (1) be placed in service after June 30, 2022, and be approved by PSC by December 31, 2030; (2) provide at least 50% of the energy produced to low- to moderate-income customers at reduced prices, as specified; and (3) be used for agrivoltaics or be installed on a rooftop, brownfield, parking facility canopy, landfill, or clean fill.

Community Solar Real Property Tax Credit

Under § 9-111 of the Tax-Property Article, the State and local governments must grant a 50% property tax credit for a brownfield, landfill, or clean fill on which a specified community solar energy generating system is installed. To be eligible, a system must be placed in service after June 30, 2022, and have been approved by PSC by December 31, 2025.

Optional Local Property Tax Credit for Solar Energy Devices

Under § 9-203 of the Tax-Property Article, counties and municipalities are authorized to grant tax credits against county or municipal property taxes for the use of a solar energy, geothermal energy, or qualifying energy conservation device in a structure for the purposes of heating and cooling, electricity generation, or the provision of hot water. Local governments may establish related definitions in determining eligibility for the credit.

Optional Local Real Property Assessment Reduction for Certain Parking Canopies

Under § 7-250 of the Tax-Property Article, the governing body of a county or municipality may reduce or eliminate, by law, the percentage of the assessment of any real property that is subject to the county or municipal property tax if the real property includes a parking facility on which a solar energy generating system has been constructed on its canopy. These provisions apply only to real property that includes a parking facility on which a system has been approved by PSC for a CPCN or CPCN exemption on or after July 1, 2024. The provision terminates June 30, 2027.

Sales and Use Tax Exemptions

Under § 11-230 of the Tax-General Article, the sales and use tax does not apply to the sale of solar energy equipment, which is defined as equipment that uses solar energy to heat or cool a structure, generate electricity to be used in a structure or supplied to the electric grid, or provide hot water for use in a structure.

Under § 11-207 of the Tax-General Article, the sales and use tax does not apply to the sale of electricity generated by solar energy equipment for use in residential property owned by an eligible customer-generator under the State's net metering law.

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

Compliance Costs (\$ Millions)	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
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	<u>0.4</u>	<u>1.0</u>	<u>4.4</u>	<u>9.3</u>	<u>12.0</u>
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	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.4</u>	<u>1.3</u>
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
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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.