Maryland
Department of
the Environment

Larry Hogan, Governor
Boyd K. Rutherford, Lt. Governor

Ben Grumbles, Secretary
Horacio Tablada, Deputy Secretary

March 11, 2020

The Honorable Guy Guzzone, Chair
Budget and Taxation Committee
Miller Senate Office Building, Suite 3W
Annapolis, Maryland 21401

Re: Senate Bill 912 - Environment - Climate Crisis and Education Act

Dear Chairman Guzzone and Members of the Committee:

The Maryland Department of the Environment (MDE or the Department) has reviewed *Senate Bill 912 - Environment - Climate Crisis and Education Act* and would like to provide some information on the bill.

This bill has a very significant fiscal and operational impact on the Department. For example, the Department would have the following new responsibilities under the bill: administering the schedule of greenhouse gas (GHG) fees on all fossil fuels brought into the State for combustion and electricity; solely administering the Benefit Fund and the Infrastructure Fund; and administering the Kirwan Fund in consultation with the Department of Education.

In regard to GHG fees, the Department would like to note some likely issues. Fees collected may not be passed as a direct cost to an end user of fossil fuels or a customer of an electric or gas company. It is not clear how this provision would be enforced in a market economy, how one would know that the cost is being passed on (prices change on a day-to-day basis for many different reasons), or who would enforce the requirement upon the thousands of businesses that sell relevant products to end users.

The electricity suppliers, which includes each electric distribution company operating in Maryland and each competitive supplier of electricity to end users, would pay the fee on behalf of all their electricity customers based on each kilowatt-hour of electricity used per customer. The per-kilowatt hour fee to be paid by an electricity supplier shall be based on the carbon intensity of the fuel mix that generated those kilowatt hours of energy whether the generation sources are located within or outside the State. The Department notes that in a deregulated electricity market, like Maryland's, the electric utilities do not own or operate the power plants that are emitting fossil fuels, so they have limited influence on how electricity is generated, and generally cannot pass the emissions cost on to the power plants who are both emitting the greenhouse gases and are the entities who would respond to the economic incentive of a carbon price to reduce emissions. The bill allows suppliers to deduct payments made to purchase emission allowances under the Regional Greenhouse Gas Initiative (RGGI), but that regulation applies to power plants, which again are distinct entities in a deregulated electricity market, so the utilities and other suppliers subject to the requirements in the bill would not have any RGGI expenditures to claim. Additionally, since the bill requires the Department to assess the fee to all fossil fuels at point of entry into the State, any fossil fuel power plants operating in Maryland would presumably pay the fee for any fuel they burn, making subsequent payments by the distribution companies (the power plants' customers) to cover those electricity emissions duplicative.

As part of managing the GHG fees and three funds noted above, MDE would be required to (1) ensure that if an exemption is taken for the sequestration of carbon dioxide equivalent emissions, those emission are permanently sequestered, (2) determine the fuel used to generate electricity at each generating plant in the State and the fuel used to generate electricity that is imported into the State based on information from PJM interconnection and other sources, (3) adopt regulations for the calculation, assessment, and collection of the charges, (4) report to the General Assembly, (5) identify other GHGs as a "greenhouse gas-emitting priority" for purposes of assessing a charge, (6) study and report on the feasibility of imposing and collecting additional GHG emission charges on emissions, such as fugitive emissions from methane, (7) in connection with rebates from the Employer Benefit Account and giving special attention to manufacturing, agriculture, small nonprofit organizations, and governmental units, (i) consult with other State agencies, such as Commerce, Labor, and Housing and Community Development to identify economic sectors or subsectors at risk of serious negative impacts because of the charge, (ii) calculate, as mitigation, the total proceeds collected from the above-mentions sectors and may apportion part or all of the proceeds to the affected sector, and (iii) demonstrate, for manufacturers, agriculture and for-profit employers, that negative impacts from the charge are likely to occur due to competition from employers outside the State and demonstrate for nonprofit and governmental employers that these entities would face undue burdens without the mitigation, and (8) approve disbursements to be awarded from the Infrastructure Fund.

All of these provisions would have a significant fiscal and operational impact on the Department. Taking into account the requirement for the Department to delegate the collection of charges to the Comptroller, the Department estimates that this bill would require the development of a new program in the Department with roughly seventy employees and three new accounting systems/databases. The development of this program and systems would occur prior to seeing any influx of revenue generated from the required charges in the bill. Given that there are many unknowns about the full scope of the work to manage the three new and very complex funding programs, and the fact that managing education initiatives (the Kirwan Fund) is outside the scope of the Department's expertise, there is always the potential for needing more staff than envisioned at this time.

Additionally, under this bill, the statewide GHG reduction goals would be changed to "reduce statewide GHG emissions by 70% from 2006 levels by 2030, and 100% from 2006 levels by 2040. After 2040, statewide GHG emissions shall be net negative. The bill creates the Climate Crisis Council (the Council), which is primarily responsible for writing the plan to meet the new GHG reduction goals. However, the bill does not note who would be staffing the Council. If MDE staffs the Council and is primarily responsible for helping the Council write the new plan, there would be an additional fiscal and operational impact on the Department. The revised goals would require that MDE repeat the comprehensive emissions and economic impact analysis included in the current GGRA plan process using extended contracts with emissions and economic impact modelers. Because of the significant number of emissions reduction measures that Maryland has implemented, this would require a large number of additional scenarios and substantial contract costs.

Thank you for your consideration. We will continue to monitor *Senate Bill 912- Environment - Climate Crisis and Education Act* during the Committee's deliberations, and I am available to answer any questions you may have. Please feel free to contact me at 410-260-6301 or by e-mail at tyler.abbott@maryland.gov.

Sincerely,

Tyler Abbott

cc: The Honorable Benjamin F. Kramer
George "Tad" Aburn, Director, Air and Radiation Administration