



TO: Members, Senate Education, Health, & Environmental Affairs Committee
FROM: Mary Beth Tung – Director, MEA
SUBJECT: SB0414 – Climate Solutions Now Act of 2021
DATE: January 28, 2021

MEA POSITION: Letter of Concern

Senate Bill 414 poses significant fiscal challenges to MEA, as well as raises several issues generally.

Ratepayer Impact

The bill would extend EmPOWER energy efficiency and conservation programs from 2023 to 2026. The bill would also increase the incremental annual energy savings goal from 2% to 3%.

The proposal does nothing to alter the EmPOWER ratepayer funding mechanism, which would increase costs to ratepayers. Currently, EmPOWER has resulted in uncollected program costs of over \$800 million that will ultimately be collected from ratepayers. The increased annual requirement would likely exacerbate the debt issue unless there is an increase in the annual surcharge; which would negatively affect the current practice of limiting ratepayer impact. Also, considerations to lower the energy savings from Conservation Voltage Reduction (CVR) which accounts for over 25% of some utilities annual savings, and potential changes to lighting standards and lighting useful life could significantly increase the cost of achieving the required 3% annual savings.

RGGI Revenue - Generally

Historically, the Regional Greenhouse Gas Initiative (RGGI) auctions have provided the bulk of funding to the Strategic Energy Investment Fund (SEIF) which in turn funds MEA programs as well as a number of other initiatives throughout the State. Some advocates have mistakenly been citing a Maryland Department of the Environment (MDE) report, believing that RGGI will bring in an "additional" \$446 million this decade. This has been incorrectly interpreted to mean that RGGI annual proceeds will go up by ~\$45 million per year in the immediate future. The MDE report is in reference to a RGGI rulemaking more than two years ago, which included the comparison of two distinct scenarios for rules under which RGGI *could* be operated. It was a forecast of a proposed structure for RGGI. It was never an estimate of additional money that could be counted on compared to current or recent revenues.

To be clear, SEIF will not receive \$45M more from RGGI this year than it did last year, unless the RGGI auction revenue suddenly doubles, which is unlikely given market conditions and the RGGI cost containment reserve program currently in place. Even if MEA did see a substantial increase in RGGI revenue, it would only be restoring RGGI revenue to what it once was. RGGI revenue in FY20 was down ~37% from its peak.

RGGI Funding Cap, Diversion, and Formula Alterations

The bill proposes to limit the revenue for programs currently funded by RGGI proceeds by capping and diverting any revenues above \$50 million. The distribution of RGGI proceeds is formulaic. Therefore, the impacts of this new cap-and-divert initiative are easily approximated. Utilizing the FY22 budget analysis for comparison, we know that funding for energy assistance programs within the Department of Human Services would decrease by ~\$7 million and low-to-moderate (LMI) energy efficiency programs within MEA would see a decrease of \$1.7 million. Collectively, the bill reduces resources needed to lessen the burden of energy costs, especially during a period in which economic recovery should be paramount.

In addition to a new cap-and-divert approach to MEA funding, the bill also further constrains funds within the renewable and clean energy programs account by requiring the annual transfer of at least \$500,000, but up to \$2.5 million, outside of MEA for a “healthy soils” program. Recent RGGI revenue would place this transfer at or near the \$2.5 million mark on an annual basis. The renewable and clean energy account and SEIF more generally are already incredibly constrained. This puts at risk existing renewable energy, transportation sector, and grid resilience programs within MEA. With the impacts of this legislation, some of MEA’s most popular and effective programs, including those that help deploy Zero-Emission Vehicles (ZEVs) and solar, would likely be sacrificed entirely.

MEA FY20 programs will help garner over 43.9 million kWh of generated or avoided electricity, 159,000 therms of natural gas savings, 28,000 kW of new solar photovoltaic capacity, 1,100 tons of new ground source heat pump capacity, 14,000 gallons of gasoline saved and an additional 1,250 gallons of diesel saved. More specifically, in FY20 MEA utilized the renewable and clean energy programs account to reduce carbon emissions by an estimated 375,089 metric tonnes.

MEA believes strongly that the SEIF already funds targeted and proven programs producing greenhouse gas (GHG) emission reductions, reliable energy supply, energy efficiency, and the infrastructure needed for economic development and recovery; including programs targeted to assist traditionally marginalized communities. MEA further believes that there may be existing federal resources for programs like “healthy soils” that should be tapped prior to the permanent diversion of RGGI funds. This is especially true in this time of significant financial constraint. The bar to implement new initiatives that will effectively supplant existing MEA programs should include convincing evidence that the diversion of funds will result in a greater benefit as it relates to the allowable uses of SEIF. Stated another way, just because one *can* do a thing doesn’t necessitate that one *must* do that thing.

Commission Membership

The bill will expand the role of the Commission on Environmental Justice and Sustainable Communities (Commission) to include the development of “specific recommendations to address environmental justice concerns, reduce emissions of greenhouse gases and co-pollutants, and build climate equity and resilience within disproportionately affected communities; and... [s]et goals for the percentage of State

funding for greenhouse gas emission reduction measures that should be used for the benefit of disproportionately affected communities...”.

MEA, as previously highlighted in this text, operates a bevy of beneficial programs that are essential to the State’s GHG reduction goals. Specifically included in these programs are those targeted at increasing energy and financial resilience. For these reasons, it would be appropriate that MEA be represented on the proposed Commission.

Just Transition Employment and Retraining Working Group

The bill creates a Just Transition Employment and Retraining Working Group (Working Group) within the Commission. That Working Group is tasked with, among other things, identifying “[e]nergy-intensive industries...”. “[s]ites of electrical generating facilities that may be closed as a result of a transition to renewable energy...”, and “[s]ector-specific impact of the State’s greenhouse gas emissions reduction plan on the State’s current workforce”.

Similarly to the Commission, the tasks of the Working Group are heavily related to energy issues, yet the State’s authority on such issues, MEA, is excluded from involvement. In fact, two specific “environmental advocacy groups” are identified (though the focus of the Working Group is not environmental in nature) but neither MEA nor the Power Plant Research Program (PPRP) within the Department of Natural Resources are tapped for their subject matter expertise.

PPRP provides a framework for the comprehensive statewide review of all electric power issues with the goal of balancing need, cost and impact. MEA funds or administers a number of workforce training programs for the clean energy economy, and advises on policy that affects the transition to a clean energy workforce. The State does not yet have a strong data baseline of clean and traditional energy jobs in terms of quality, equity, and number to perform the Working Group’s mandate. However, MEA is currently funding research that will inform State policy regarding where training and recovery resources can be best applied.

It would be appropriate to include representatives from PPRP and MEA in the proposed Working Group.

Other Points of Interest

Carbon Capture, Utilization, and Storage

The bill prohibits MDE from including Carbon Capture Utilization and Storage (CCUS) as a measure to reduce GHG emissions. The requirement for MDE to create a plan to reach net zero emissions by 2045 will be difficult, if not impossible, without CCUS. This is a view gaining global recognition, where even at the Intergovernmental Panel on Climate Change (IPCC), three of their four projected pathways (2018) for carbon reduction rely on some form of carbon capture technologies. This is a key, developing technology in the fight against climate change. Furthermore, the State cannot even begin to decarbonize the industrial sector without this technology. If net zero carbon is the goal, it is inconceivable that CCUS

is omitted from state policy. This places into further doubt about whether the State is truly interested in reducing greenhouse gases.

Energy Codes

Maryland has already mandated the adoption of the International Energy Conservation Code (IECC) every three years. The next IECC cycle will be in 2021; which the State, followed by the counties, will be required to adopt within a certain timeframe. However, the bill would require energy reductions of a certain percentage based on the 2018 IECC beginning in January 2024 and running through January 2026. This means that projects will need to be designed with an eye on both the 2018 IECC as well as the then current IECC code (likely the 2021 IECC). The bill actually allows for more stringent standards, but this still means that multiple energy codes may need to be considered in the design and construction phases of development, likely resulting in increased design costs, market uncertainty, and an inefficient allocation of valuable resources.

Net Zero Schools

MEA helped fund the construction and design of Howard County's Wilde Lake Middle School, and now has experience with, and has helped to fund two additional schools in Baltimore City, which were dedicated this past summer, 2020. The benefit of one net zero school may be less than the benefits that could be had for the same overall cost by utilizing more cost-effective upgrades to multiple schools. This would also increase the geographic diversity of the overall benefits.

MEA is working closely with the Interagency Commission on School Construction to understand the energy management practices of schools and where investment can yield the greatest financial, safety, performance, and environmental benefits. As schools adapt to re-opening, significant investments will be needed in heating, cooling, and ventilation, including the conversion of major systems to lower-carbon sources of energy. While supporting net zero schools is desirable in the long term, addressing more immediate needs may provide greater GHG emissions reductions at lower costs. This should be a policy focus.

Major Renovation Definition

Part of the definition of "major renovation" is tied to "project costs exceeding 50% of the assessed value of the building". Tying this definition to costs could create a regulatory environment rife with system-gaming. Costs can vary heavily based on contractor assumptions, required levels of environmental mediation, and local wage rates. This may result in, or even encourage, system-gaming; the purposeful avoidance of triggering the "major renovation" definition.