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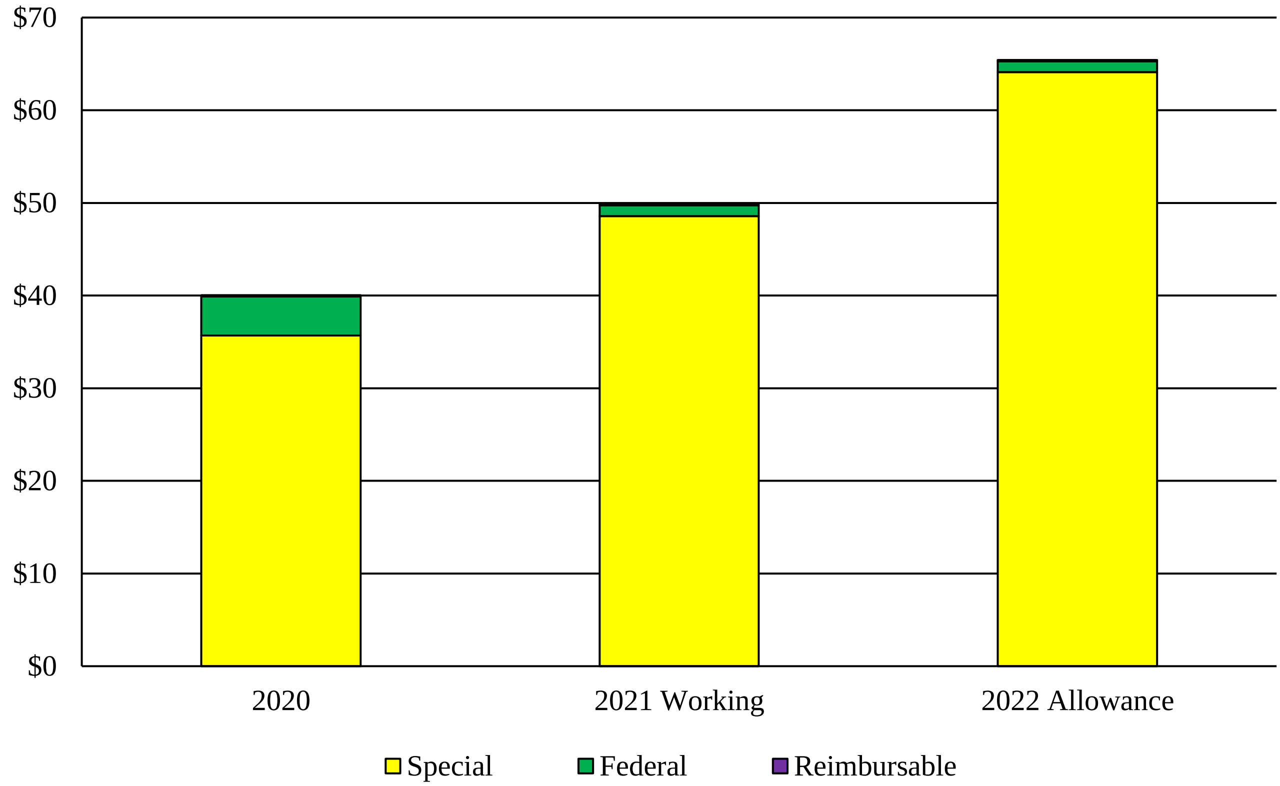
Maryland Energy Administration

Executive Summary

The Maryland Energy Administration (MEA) is an independent unit of State government that conducts planning activities for a variety of energy sources, administers programs aimed at increasing energy efficiency and increasing the use of renewable and clean energy, and advises the Governor's office on energy policy.

Operating Budget Summary

Fiscal 2022 Budget Increases $15.5 Million, or 31.1%, to $65.4 Million
($ in Millions)



Note: The fiscal 2021 appropriation includes deficiencies, planned reversions, and general salary increases. The fiscal 2022 allowance includes contingent reductions and the annualization of general salary increases.

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- The increase in the fiscal 2022 allowance occurs primarily among special funds, an increase of $15.5 million, resulting from (1) the availability of funds from the Exelon Corporation and Pepco Holdings, Inc. merger which were expected to be fully utilized by the close of fiscal 2020 (an increase of $3 million) and (2) the remaining fund balance from the close of fiscal 2020 in the Maryland Gas Expansion Fund ($26.32 million total, an increase of $19.8 million), which includes funds also budgeted in fiscal 2021.

- The inclusion of that level of funding from the Maryland Gas Expansion Fund indicates that $6.5 million of funding from this source in the fiscal 2021 working appropriation will be canceled, distorting the year-to-year change in MEA. The $6.5 million from the Maryland Gas Expansion Fund budgeted in fiscal 2021 was restricted for use for low-income energy efficiency rather than the originally budgeted purpose.

Key Observations

- ***Regional Greenhouse Gas Initiative-Sourced (RGGI) Funds in MEA Decline:*** MEA's primary ongoing source of funding is the RGGI-sourced funds in the Strategic Energy Investment Fund (SEIF). Although funding from the SEIF increases in the fiscal 2022 budget as a whole, it decreases within MEA due to declining fund balance and uses outside of the agency. With little funding expected to be available from non-RGGI-sourced funds in MEA beyond fiscal 2022, some MEA programs may be reduced in the future.

- ***Zero Emission Vehicle Tax Credit:*** Following the failure of legislation to extend the Zero Emission Vehicle Excise Tax Credit in the 2020 session, no new vehicle purchases after June 30, 2020, were eligible for the credit. However, a backlog of eligible purchases/applications remained from prior years due to statutory maximums of allowable credits per year. SB 152 of 2021 proposes to authorize the eligible but unprovided tax credits to be paid by the Transportation Trust Fund, which would be at least partially repaid by the SEIF in fiscal 2022 and 2023.

Operating Budget Recommended Actions

1. Adopt committee narrative requesting information on the Strategic Energy Investment Fund revenue and spending.

2. Adopt committee narrative requesting information on the status of Maryland Gas Expansion Fund programs.

Operating Budget Analysis

Program Description

The Maryland Energy Administration (MEA) is an independent unit of State government with a mission of promoting affordable, reliable, and cleaner energy for the wellbeing of all Marylanders. In support of this mission, MEA conducts planning activities for a variety of energy sources, administers the Strategic Energy Investment Fund (SEIF), administers programs aimed at increasing energy efficiency and the use of renewable and clean energy, and advises the Governor's office on energy policy. MEA programs affect local and State government, nonprofit organizations, residential consumers, businesses, and industrial consumers. The key goals of MEA are to:

- increase Maryland's energy efficiency and energy conservation;
- improve the energy efficiency of local governments, nonprofits, businesses, and State agencies;
- increase electric generation fuel diversity through the increased use of in-state renewable and clean energy; and
- diversify Maryland's transportation network by encouraging the utilization of alternative fuel and electric vehicles.

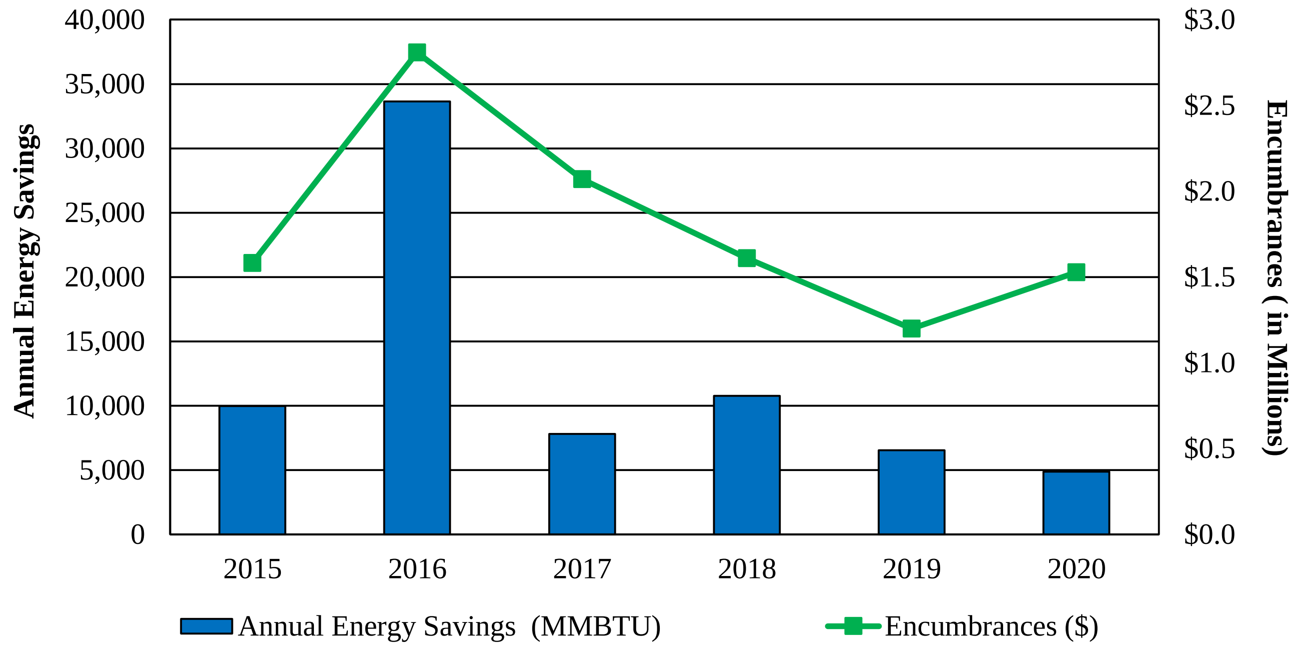
Performance Analysis: Managing for Results

1. Energy Savings from Revolving Loan Funds Decrease Despite Increased Spending

Prior to fiscal 2020, MEA operated two revolving loan fund programs to provide loans for energy efficiency projects. The Jane E. Lawton Conservation Loan Program (JELLP) provided loans at low interest to nonprofits, businesses, and local governments, while the State Agency Loan Program provided loans at no interest, with a 1% administrative fee, to State agencies. Chapter 135 of 2019 expanded eligible borrowers in the JELLP to include State agencies, effectively combining the two programs. In both fiscal 2020 and 2021, MEA reserved a portion of the funds for a set number of months for certain customers (nonprofits: $205,000 reserved for three months; and nonprofits, local governments and businesses: $850,000 reserved for six months). In fiscal 2021, MEA made some adjustments to the program in part due to the effects of the COVID-19 pandemic and resulting economic conditions. In particular, MEA decreased the interest rates for non-State entities from 2% to 1% and for existing loans deferred payments and allowed greater use of funding for indirect costs. In addition, MEA began offering a microloan option (loans under $40,000 with maximum five-year terms) and capped loans to non-State entities at $200,000.

While the programs were not combined until fiscal 2020 due to the June 1 effective date of Chapter 135, for purposes of **Exhibit 1**, the encumbrances (representing loan activity) and annual energy savings have been combined historically. As shown in this exhibit, the trend of annual energy savings typically follows the trend of encumbrances. There are outliers in some years that typically occur when energy savings from a particular project or several projects are unusually high. In fiscal 2020, the encumbrances increased by approximately 27%, compared to fiscal 2019. The increase was due to higher loan activity among non-State entities, as the full funding initially reserved for State agencies was used in both years. Despite the increased level of encumbrances, energy savings decreased by approximately 26%.

Exhibit 1
Annual Energy Efficiency Loan Program Savings versus Encumbrances
Fiscal 2015-2020



MMBTU: million British Thermal Units

Note: To the extent possible, encumbrances have been reduced from those originally reported if encumbrances were later canceled.

Source: Maryland Energy Savings; Department of Budget and Management; Governor's Fiscal 2019-2022 Budget Books

Although the level of encumbrances for non-State entities was higher in fiscal 2020 than the prior year, it continued to be well below available funding. Although $850,000 was intended for these entities in each fiscal 2019 and 2020, no loans were provided to them in fiscal 2019, and four loans totaling $328,000 (38.6% of available funds) were provided in fiscal 2020. Through January 28, 2020, MEA has committed $200,000 of JELLP funding, with an application in hand for an additional

$200,000. If provided, that would total just under half of the intended funds for those entities. MEA anticipates State agencies are likely to apply for the remainder of the funding.

Despite the persistently low use of funds for the non-State entities, the fiscal 2022 allowance increase funding for the JELLP, particularly funds intended for non-State entities, by $150,000 to $1.0 million. However, MEA notes that while these funds are initially reserved for non-State entities, consistent with prior years, the funds would be available to State entities if insufficient applications are submitted by non-State entities to use all of the reserved funding. **MEA should comment on the decision to increase funding for non-State entities when loan activity has been limited. MEA should also discuss the impact of COVID-19 on interest in the program and loan repayments.**

Fiscal 2021

Proposed Deficiency

The fiscal 2022 budget contains two deficiency appropriations related to MEA, which in total increase MEA's fiscal 2021 federal fund appropriation by $117,932. These deficiency appropriations are supported by the remaining funding in the final year of a one-time federal grant for local government street lighting conversion and higher than expected appropriations from annual federal funding sources (State Energy Program and Clean Cities) in the Energy Efficiency and Conservation Programs, All Other Sector, and General Administration programs. These deficiency appropriations primarily support grants ($61,837) and salaries and wages ($40,083). The remainder is dedicated to contracts for the Clean Cities Program and travel ($16,012).

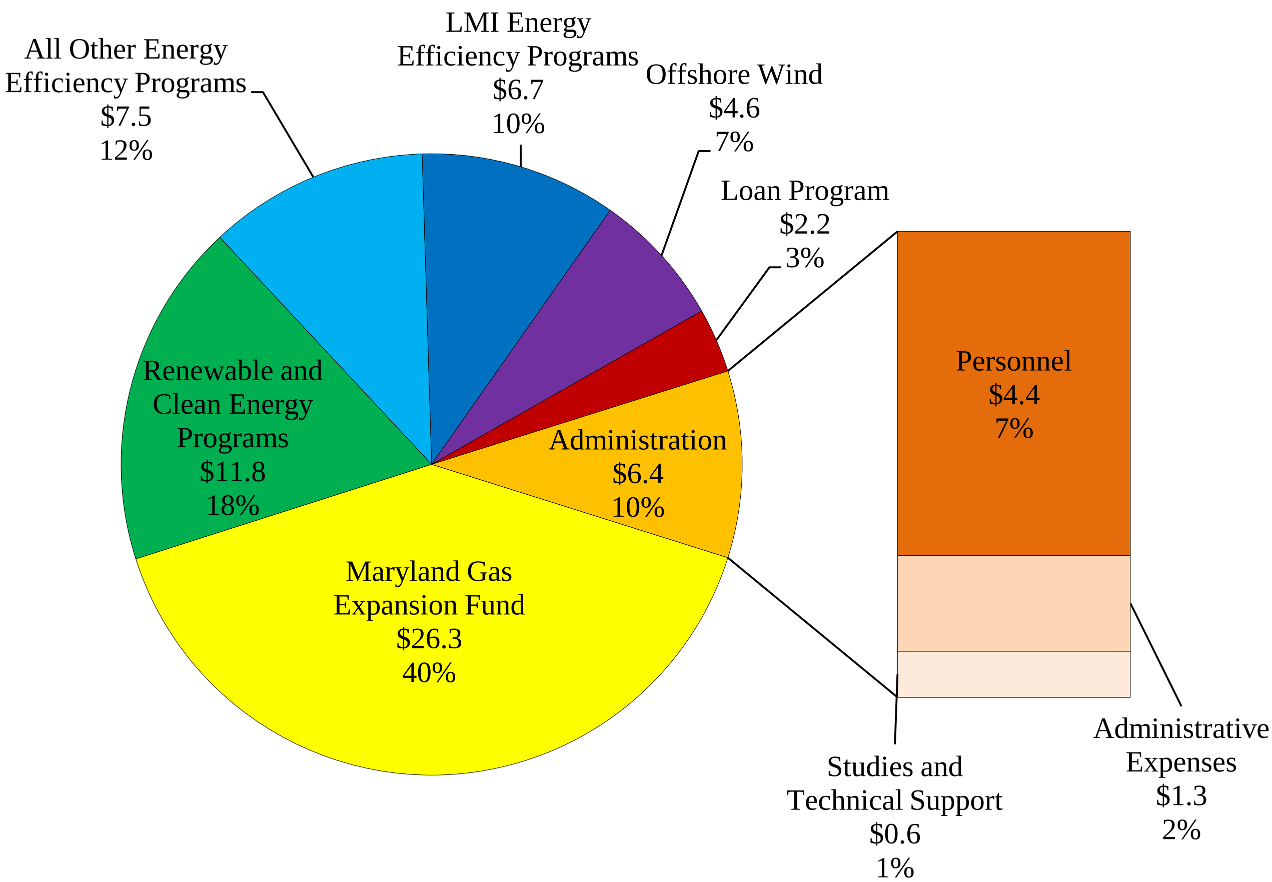
Cost Containment

MEA's fiscal 2021 appropriation was reduced by $18,592 in total funds ($16,456 in special funds, $1,817 in federal funds, and $319 in reimbursable funds) due to two across-the-board reductions approved by the Board of Public Works on July 1, 2020. These actions reduced State agency unemployment insurance contributions ($9,459 in total funds) and the allocation for Department of Information Technology services ($9,133 in special funds).

Fiscal 2022 Overview of Agency Spending

The fiscal 2022 allowance of MEA totals $65.4 million after accounting for statewide employee compensation adjustments. As shown in **Exhibit 2**, the Maryland Gas Expansion Fund activities are the largest category of spending, 40%, or $26.3 million. The second largest category is renewable and clean energy programs ($11.8 million), which includes grants to support residential and commercial renewable energy and alternative fuel activities. In fiscal 2022, approximately 56% of the funding for renewable and clean energy programs is available from non-Regional Greenhouse Gas Initiative (RGGI)-sourced funds.

Exhibit 2
Overview of Agency Spending
Fiscal 2022 Allowance
($ in Thousands)



LMI: low- and moderate-income

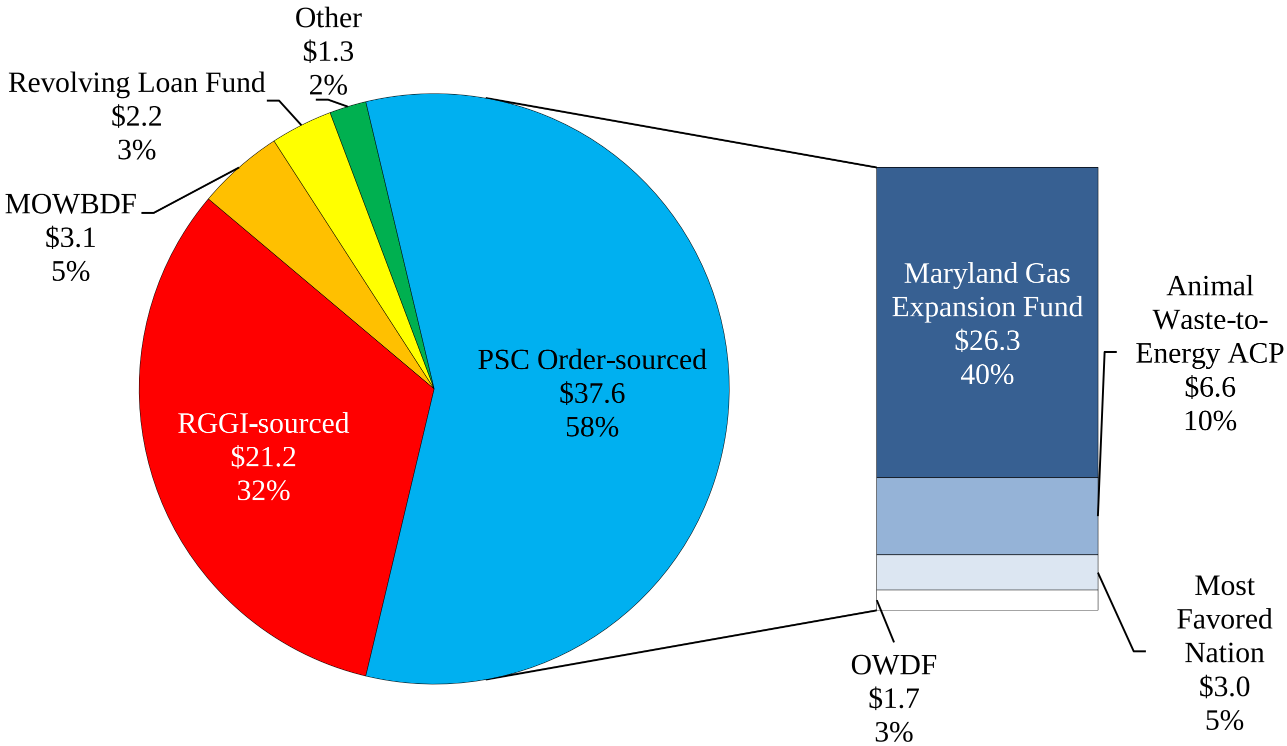
Note: Numbers may not sum due to rounding. The fiscal 2022 allowance includes the annualization of the January 2021 general salary increase.

Source: Governor's Fiscal 2022 Budget Books; Department of Legislative Services

Agency Spending By Source

While RGGI-sourced SEIF is the primary ongoing source of MEA programmatic and administrative expenses in recent years, it has not always been the largest source of funding. Public Service Commission (PSC) orders in utility mergers or other large proceedings have included conditions for approval that require contributions to MEA, or other entities for certain types of activities, which have increased funding available to the agency in recent years. As shown in **Exhibit 3**, in the fiscal 2022 allowance, these PSC order-sourced funds account for approximately 58% of MEA's budget, an increase from approximately 35% in fiscal 2021, due to both a decline in RGGI-sourced spending and an increase in PSC-sourced funds. The growth in PSC-sourced funds is driven primarily by the higher budget from the Maryland Gas Expansion and availability of Most Favored Nation Funds, which more than offsets a decrease in the budget from the Animal Waste-to-Energy funds.

Exhibit 3
Spending by Source
Fiscal 2022 Allowance
($ in Millions)



ACP: Alternative Compliance Payments
MOWBDF: Maryland Offshore Wind Business Development Fund
OWDF: Offshore Wind Development Fund
PSC: Public Service Commission
RGGI: Regional Greenhouse Gas Initiative

Note: Numbers may not sum due to rounding. Spending includes the annualization of the fiscal 2021 general salary increase and assumes that it is supported with RGGI-sourced, federal, and reimbursable funds.

Source: Governor's Fiscal 2022 Budget Books; Maryland Energy Administration; Department of Legislative Services

The non-RGGI-sourced revenue must be used as directed in statute or the PSC order creating the source:

- ***Exelon Animal Waste-to-Energy Alternative Compliance Payments (ACP):*** Liquidated damages totaling $44 million from a State-chosen option of a menu of possible requirements related to the development of new animal waste-to-energy generation from the Exelon Corporation (Exelon) and Constellation Energy Group (Constellation) merger. These funds are required to be used to support the creation of Tier 1 renewables consistent with the required use of ACP under the Renewable Portfolio Standard (RPS) at the time the contribution was required.

- ***Maryland Gas Expansion Fund:*** A contribution of $30.3 million for use by MEA to promote the expansion of natural gas infrastructure to serve businesses, residents, industrial enterprises, and utility generation facilities from the AltaGas Ltd. and WGL Holdings, Inc. merger. PSC required that the majority of the funds be used within the Washington Gas service territory and at least $4.6 million be used within Calvert, Charles, Frederick, and St. Mary's counties.

- ***Offshore Wind Development Fund (OWDF):*** A contribution of $30 million for offshore wind development activities (such as studies or consortium memberships) from the Exelon and Constellation merger.

- ***Maryland Offshore Wind Business Development Fund (MOWBDF):*** Created through the Offshore Wind Energy Act of 2013 (Chapter 3), the fund has been composed of the seed funds from the OWDF and required contributions ($2 million a year for three years) by approved applicants of Offshore Wind Renewable Energy Credits (OREC).

- ***Most Favored Nation Provision:*** A condition included in the merger of Exelon and Pepco Holdings, Inc. requiring an increase in the value of benefits in Maryland if benefits in another jurisdiction were higher than those included in Maryland's final order. These funds ($9.2 million) were allocated to MEA for use for an industrial energy efficiency program and the Combined Heat and Power program. These funds were expected to be fully utilized in fiscal 2020. However, due to restrictions on the locations for the use of funds and the impact of COVID-19 on project development, funds remain available in fiscal 2022.

While these funds represent the majority of MEA's fiscal 2022 allowance, future budgets will rely more heavily on RGGI-sourced funds, which could reduce spending on programs, particularly in the renewable and clean energy programs. As shown in **Exhibit 4**, aside from the MOWBDF few of these non-RGGI-sourced funds are expected to be available beyond fiscal 2022. While the MOWBDF balance is declining as well, PSC recently opened an application period for ORECs, which, if any applications are approved, would result in additional deposits into the fund.

Exhibit 4
Non-RGGI Sourced Fund Balances in MEA
Fiscal 2020-2022 Est.
($ in Millions)

	2020	2021 Est.	2022 Est.
Exelon Animal Waste-to-Energy	$14.4	$6.5	$0.0
Renewable Portfolio Standard	0.1	0.1	0.1
Offshore Wind Development	4.8	3.1	1.5
Cove Point	0.0	0.0	0.0
Most Favored Nation Provision Pepco/Exelon Merger	4.9	4.9	1.9
Maryland Gas Expansion Fund	26.3	26.3	0.0
Strategic Energy Investment Fund Account Total	***$50.6***	***$41.0***	***$3.4***
Maryland Offshore Wind Business Development Fund	$10.5	$6.8	$3.8
Total	**$61.1**	**$47.8**	**$7.3**

MEA: Maryland Energy Administration
RGGI: Regional Greenhouse Gas Initiative

Note: Numbers may not sum due to rounding. Exelon Animal Waste-to-Energy (fiscal 2021 and 2022), Offshore Wind Development Fund (fiscal 2022) do not match Appendix K of the Governor's Budget Books to reflect planned agency spending. The fiscal 2021 balance of the Exelon Animal Waste-to-Energy account assumes cancellations of encumbrances and other returns of funds totaling $1.2 million. The estimated fiscal 2022 balance results in a slight negative of less than $25,000. The fiscal 2021 and 2022 closing balances of the Maryland Gas Expansion fund assume the cancellation of the fiscal 2021 appropriation consistent with agency plans.

Source: Governor's Fiscal 2022 Budget Books; Department of Budget and Management; Maryland Energy Administration

Proposed Budget Change

As shown in **Exhibit 5**, the fiscal 2022 allowance of MEA increases by $15.5 million, or 31.1%, compared to the fiscal 2021 working appropriation after accounting for deficiency appropriations and the January 2021 general salary increase. The increase is driven by special funds from PSC-sourced funding, while RGGI-sourced funds decrease (discussed further in Issue 1). Federal fund spending is relatively stable in the fiscal 2022 allowance, with a higher anticipated base grant ($81,422) partially offsetting the elimination of funding for the local government street lighting conversion grant ($102,145) that ends in fiscal 2021.

Exhibit 5
Proposed Budget
Maryland Energy Administration
($ in Thousands)

How Much It Grows:	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2020 Actual	$35,678	$4,218	$152	$40,049
Fiscal 2021 Working Appropriation	48,574	1,173	151	49,899
Fiscal 2022 Allowance	64,118	1,156	164	65,438
Fiscal 2021-2022 Amount Change	$15,543	-$17	$13	$15,539
Fiscal 2021-2022 Percent Change	32.0%	-1.5%	8.3%	31.1%

Where It Goes:	Change
Personnel Expenses	
Employee and retiree health insurance	$86
Turnover expectancy decreases from 5.62% to 4.24% better reflecting recent vacancy levels	47
Annualization of the fiscal 2021 general salary increase	38
Restoration of a one-time reduction in State agency unemployment insurance contributions	8
Workers' compensation premium assessment	-9
Other fringe benefit adjustments	5
Program Expansions or Changes	
Maryland Gas Expansion Fund to support multi-year projects to assist in workforce development	19,820
Adding a solar component to low- and moderate-income programming	500
Resilient Maryland program to support feasibility analysis and planning regarding incorporation of clean and distributed energy resources into energy management plans	400
Jane E. Lawton Loan Program to support nonprofit, businesses, and local governments	150
Data Processing Center Energy Efficiency program due to demand	100
Maryland Offshore Wind Business Development Fund due to declining fund balance and impacts of COVID-19 on programs including cancellation of an export-focused program	-650
State Fleet Electric Vehicle Program transition of budgeting to Department of Budget and Management	-2,250
Changes Due to Program Closeout Activities or Ending	
Net Zero Schools for activities to close out program after schools finished construction	150
Animal Waste-to-Energy analysis of projects under design or construction	100
Federal grant for local government street lighting conversion that ends in fiscal 2021	-102

Where It Goes:	Change
Program Changes Due to Availability of Funding	
Commercial, Industrial and Agriculture Energy Efficiency Grant program due to availability of Most Favored Nation funds	1,500
Combined Heat and Power Program funding from Most Favored Nation Provision offset by lower SEIF availability	-300
Technical studies	-300
Alternative Fuel Vehicle program	-500
Electric Vehicle Recharging Equipment Rebate program	-600
Residential Clean Energy Grant Program	-650
Solar Resiliency Hub program	-900
PV in Parking Lots program	-1,000
Administrative Expenses	
Studies related to federal rules on capacity auctions and impact of carbon pricing	280
Contract to develop applicant interface for Salesforce system to allow for completing grant applications	124
Upgrade to a new version of Salesforce	90
Purchase document management system and additional laptops due to remote work	42
Eliminate 2 contractual full-time equivalents (Marketing Specialist and Senior Policy Advisor) as part of budget reducing efforts	-91
Continued transition away from shared services	-100
Travel to align with recent experience	-107
Environmental Trust Funds no longer available to agency	-225
Other changes	-117
Total	**$15,539**

PV: photovoltaic
SEIF: Strategic Energy Investment Fund

Note: Numbers may not sum to total due to rounding.

Maryland Gas Expansion Fund

Available for the first time in fiscal 2020, three programs have been offered through the Maryland Gas Expansion Fund. The general purposes of these three programs are similar, which is to promote natural gas expansion by making it available to new customers and areas of the State or reconnecting customers who no longer use or have functional access to it. The three programs are:

- ***Anchor Customer Program:*** providing grants to commercial, industrial, State agencies, local governments and nonprofits to assist with energy projects promoting gas distribution such as investment in assets including pipes that enable customers to convert to gas or reintegrate/reconnect previous customers;

- ***Local Distribution Company (LDC) Program:*** to provide grants to invest in assets including pipes that enable customers to convert to gas or reintegrate/reconnect previous customers; and

- ***Cost in Aid of Construction Program:*** provides grants to LDCs to assist in defraying "last mile" costs from the end of the utility's assets to the customer's meter.

The fiscal 2022 allowance includes $26.32 million for the Maryland Gas Expansion Fund, which is the anticipated remaining balance in this special fund. This level of funding represents an increase of $19.8 million compared to the fiscal 2021 working appropriation. Including funding in the budget of this level means that the fiscal 2021 appropriation ($6.5 million) will not be used, distorting the year-to-year change. As introduced, the fiscal 2021 funding was expected to be used for activities consistent with the use of funds in fiscal 2020. However, language in the fiscal 2021 Budget Bill (Chapter 19 of 2020) restricted these funds to be used for low-income residential weatherization in the Department of Housing and Community Development. These funds have not been transferred, and based on the fiscal 2022 allowance, MEA is planning to cancel the fiscal 2021 appropriation. **MEA should comment on why these funds will not be used for the purpose for which the General Assembly restricted them.**

MEA indicates that the decision to include all remaining funding from this source in the fiscal 2022 allowance was intended to support economic activity with multi-year projects to provide opportunities for displaced workers. MEA plans to continue with its prior programs, but will focus on:

- projects to support schools, manufacturers, and multifamily property investments to high performance heating and cooling systems;

- upgrading oil-fired electrical generation operated by small cooperatives and municipal utilities;

- enhancing resiliency;

- securing access for potential pipeline injections of natural gas; and

- investing in clean fuel fleets to reduce greenhouse gas emissions, focusing on activities that reduce pollution in disadvantaged communities.

Given the substantial ramp up in funding in fiscal 2022 from this source, the Department of Legislative Services recommends committee narrative requesting information on applications and awards.

Personnel Data

	FY 20 Actual	FY 21 Working	FY 22 Allowance	FY 21-22 Change
Regular Positions	28.00	30.00	30.00	0.00
Contractual FTEs	9.00	11.00	9.00	-2.00
Total Personnel	**47.00**	**41.00**	**39.00**	**-2.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	1.27	4.24%
Positions and Percentage Vacant as of 12/31/20	0	n/a
Vacancies Below Turnover	1.27	

Issues

1. SEIF Revenues and Expenditures Increase

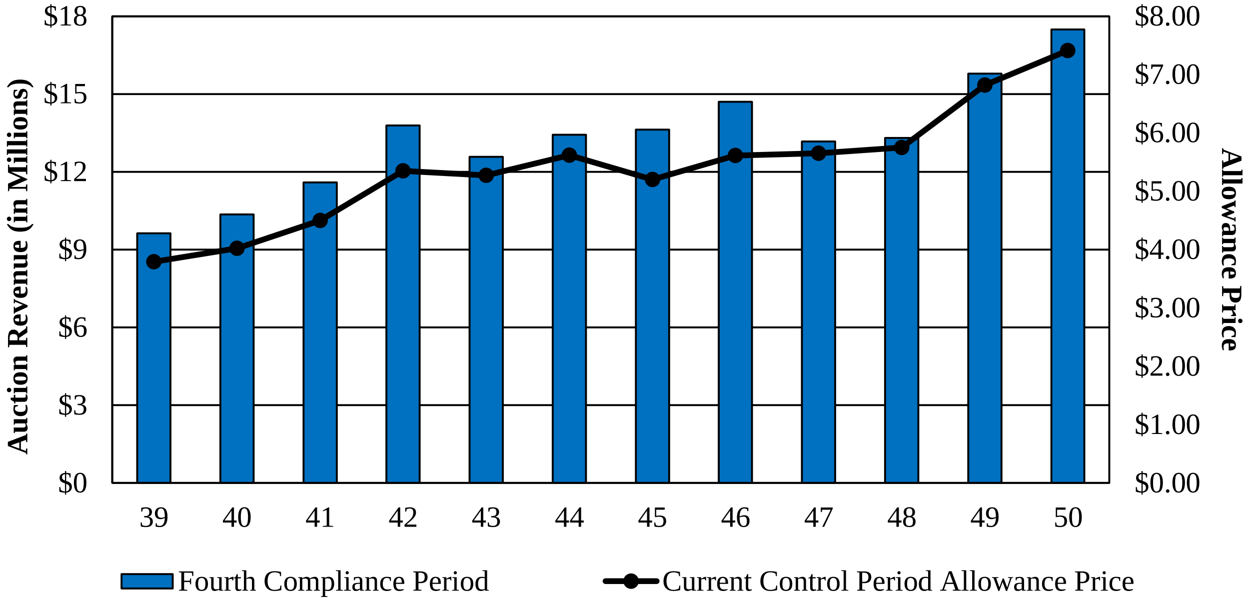
RGGI Revenue Increases in Advance of Auction Changes

In August 2017, RGGI preliminarily announced program changes that became final in December 2017. One of these changes, known as the Emissions Containment Reserve, which went into effect in January 2021, will permanently retire a certain number of allowances if the auction clearing price falls below a certain level. This reduction will only occur for states choosing to implement this mechanism, including Maryland. In calendar 2021, the price at which the Emissions Containment Reserve becomes effective is $6, but the price will increase in future years by a set percentage. Other changes impact the availability of the cost containment reserve as well as the annual inflationary increases for the minimum clearing price and cost containment reserve.

There has been some uncertainty regarding how the Emissions Containment Reserve would impact the auction clearing prices and revenue. For example, the Emissions Containment Reserve price could become a de facto floor price, as participants would not want to lose allowances to retirement. Alternatively, prices could be set by other market factors that, in some auctions, could reduce allowances available for sale. While the impact of the new Emissions Containment Reserve program component is not definitively known since no auctions have been held since it formally went into effect, RGGI auction prices have been substantially higher since the announcement of the program changes and have increased even further as the implementation approached. In the last auction before the program changes were announced, the clearing price was $2.53, but in the first auction after the announcement the clearing price rose to $4.35. The price has fallen no lower than $3.79 in any subsequent auction and has been above $5 in every quarterly auction since December 2018. The clearing price had not been above $5 since March 2016 before the announcement.

As shown in **Exhibit 6**, the two most recent auctions (September and December 2020) saw additional substantial increases in the auction clearing price; both were above the minimum price for the Emissions Containment Reserve. The December 2020 price was the second highest in program history. However, other factors could also play a role in these changes as New Jersey rejoined the program in calendar 2020 and Virginia joined in calendar 2021, leading to additional generators competing for allowances.

Exhibit 6
RGGI Quarterly Auction Results for Maryland
Auction 39 (March 2018) to Auction 50 (December 2020)



RGGI: Regional Greenhouse Gas Initiative

Source: RGGI, Inc.; Department of Legislative Services

The increasing prices in Auctions 48-50 (June, September, and December 2020) is particularly noteworthy as the shutdowns early in the pandemic reduced commercial and industrial electricity use, which would be expected to lower emissions from generation, despite an increase in residential use. For example, California experienced a significant impact in their auction program (which is more extensive than Maryland) early in the pandemic, though that impact was temporary.

Due to ongoing uncertainty about auction revenue, despite recent higher revenue levels, and consistent with recent practice, the fiscal 2022 SEIF revenue forecast continues to estimate auction prices at the floor price in calendar 2021 ($2.38) and calendar 2022 ($2.44). This method of revenue forecasting, which has been implemented for several years, assumes overattainment of revenue beyond the floor price will continue to be used in the next budget cycle (*e.g.*, overattained fiscal 2022 revenue is used in fiscal 2024). This method creates certainty in funding to avoid mid-year program reductions but results in substantial fund balances representing the attainment to be used in future years. For example, overattainment exceeded $25 million in each of fiscal 2019 and 2020 and is approximately $22.4 million for the first two auctions in fiscal 2021.

RGGI Allocation and Fund Balance

Chapters 127 and 128 of 2008 established the SEIF primarily to receive revenue from the RGGI carbon dioxide emission allowance auctions. The chapters also established an allocation of revenue from the sale of allowances to be distributed among various categories of spending. The allocations were subsequently changed with the current allocation enacted as part of the Budget Reconciliation and Financing Act of 2014. Other revenues held in the SEIF available from different fund sources (such as the ACP and funds available from PSC orders) are not subject to the statutory allocation of revenue but follow other statutory requirements or requirements from the PSC orders that resulted in that source).

SEIF Balance

At the close of fiscal 2020, the balance from RGGI-sourced subaccounts in the SEIF totaled $76.0 million, the largest share of which ($29.1 million) occurred in the energy assistance subaccount. The balances are expected to decrease in fiscal 2021 and 2022, both due to anticipated use of the fund balance and the intentional understating of anticipated revenue in the revenue forecast. When the additional revenue amounts are known for the final two auctions, it is likely that the fiscal 2021 closing balance will exceed the fiscal 2020 level.

As shown in **Exhibit 7,** the SEIF forecast includes one proposed change in statute that impacts the revenue distribution and, ultimately, the closing fund balances in fiscal 2022. SB 152 of 2021 (a departmental bill) proposes to transfer $4 million of RGGI revenue to the Transportation Trust Fund (TTF) for the Zero Emission Vehicle Tax Credit in fiscal 2022 and 2023 (discussed further in Issue 2). Overall, all subaccounts are expected to have sufficient revenue and fund balance to support activities budgeted in fiscal 2022 and leave a balance to support future activities even if SB 152 is enacted.

Exhibit 7
Strategic Energy Investment Fund Balance, RGGI-sourced Subaccounts
Fiscal 2020-2022 Est.
($ in Millions)

	2020 Actual	2021 Est.	Governor's Plan 2022 Est.	Current Law 2022 Est.
Energy Assistance	$29.1	$33.5	$12.3	$14.3
Energy Efficiency and Conservation Programs, Low- and Moderate-income Sector	$3.6	$8.1	$3.3	$3.7
Energy Efficiency and Conservation Programs, All Other Sectors	$8.2	$8.2	$3.1	$3.5
Renewable Energy, Clean Energy, Climate Change, Education, and Resiliency	$14.3	$14.2	$6.6	$7.4
Administration	$20.9	$7.5	$4.6	$5.0
Total	**$76.0**	**$71.5**	**$29.9**	**$33.9**

RGGI: Regional Greenhouse Gas Initiative

Note: To calculate the balance estimates for fiscal 2021 and 2022, revenue is estimated for two auctions in fiscal 2021 (March and June 2021) and all four auctions in fiscal 2022 but includes actual auction results for two auctions in fiscal 2021 (September and December 2020). Fiscal 2021 and 2022 estimated closing balances do not match Appendix K of the Governor's Budget books due to differences in the assumptions of revenue available for distributions.

Source: Governor's Fiscal 2022 Budget Books; Maryland Energy Administration; Department of Budget and Management; Department of Legislative Services

Of note, the fund balances within the various subaccounts are bolstered by planned interest realignment. Interest, which otherwise accrues to the administration account, is expected to be realigned in both fiscal 2021 and 2022. These realignments are not required to be distributed under any particular formula or any particular time. In total, $15.6 million of interest is expected to be realigned, with low- and moderate-income energy efficiency programs receiving the largest share ($6.6 million). The remainder will be distributed to (1) renewable and clean energy programs ($3.5 million); (2) general energy efficiency programs ($3.0 million); and (3) energy assistance ($2.5 million).

Statutory Comparison

Traditionally, the statutory allocation occurs after the distribution of transfers required under statute and accounting for the payment of annual dues to RGGI, Inc. The fiscal 2022 forecast continues that practice for certain transfers but as in fiscal 2021 does not for others. The maintenance of the practice occurs for longer standing transfers including the anticipated temporary restart of the transfer to the TTF as proposed under SB 152, as well as the final year of the required transfer to the Maryland

Energy Innovation Fund. As in fiscal 2021, this practice does not occur for the transfers required in Chapter 757 of 2019 (the Clean Energy Jobs Act), which are:

- $7.0 million between fiscal 2021 and 2028 to the Small, Minority, and Women-Owned Businesses Account (SMWOBA), with set amounts per year; and

- $8 million (for various apprenticeship related purposes) beginning in fiscal 2021 to a Clean Energy Workforce Account in the Maryland Employment Advancement Right Now (EARN) program in the Maryland Department of Labor from the Renewable and Clean Energy Account.

The requirement to transfer the funds for EARN from the Renewable and Clean Energy Account prevents the diversion of revenue prior to distribution as occurs for other transfers. The budget plan follows a similar treatment for the required SMWOBA transfer.

As shown in **Exhibit 8**, as would be expected under the revenue forecasting method, a substantial portion of the fiscal 2022 allowance is supported with fund balance, which includes the fiscal 2020 overattainment (approximately $32.6 million).

Exhibit 8
Fiscal 2022 Allowance Compared to Required RGGI Distribution
($ in Millions)

	Revenue Available Governor's Plan	**Revenue Available Current Law**
Revenue Estimate	$25.3	$25.3
RGGI Dues	-0.4	-0.4
Maryland Energy Innovation Fund	-1.5	-1.5
Zero Emission Vehicle Tax Credit	-4.0	0.0
Revenue Available for Distribution	**$19.4**	**$23.4**
Proposed Use of Fund Balance	**$42.6**	**$38.6**
Total	**$62.0**	**$62.0**

			Governor's Plan		**Current Law**	
	2022 Allowance	**Revenue Distribution as Determined by Statue**	**2022 Revenue Allocation**	**Use of Fund Balance**	**2022Revenue Allocation**	**Use of Fund Balance**
Energy Assistance	$31.9	**At least 50%**	$9.7	$22.3	$11.7	$20.3
Low and Moderate Income Energy Efficiency	6.7	**At least 10%**	1.9	4.8	2.3	4.4
Energy Efficiency, All Other Sectors	7.0	**At least 10%**	1.9	5.1	2.3	4.7
Renewable Energy, Climate Change, Resiliency, Energy Education	11.5	**At least 20%**	3.9	7.6	4.7	6.8
Administration	4.8	**No more than $5.0 million, up to 10%**	1.9	2.9	2.3	2.5
Total	**$62.0**		**$19.4**	**$42.6**	**$23.4**	**$38.6**

MEA: Maryland Energy Administration
RGGI: Regional Greenhouse Gas Initiative

Source: Governor's Fiscal 2022 Budget Books; Section 9-20B-05 of the State Government Article; Department of Legislative Services

Fiscal 2022 Allowance Comparison

As shown in **Exhibit 9**, the fiscal 2022 budget overall increases RGGI-supported spending by $10.7 million. The primary driver of this increase is the distribution for energy assistance, an increase of $12.1 million, primarily due to the use of fund balance in addition to overattainment, to assist in meeting the demand resulting from the economic impacts of the pandemic. The other increases occur in the areas of required transfers from the Clean Energy Jobs Act (Chapter 757 of 2019), to reflect the required increase in the transfer to SMOWBA ($200,000 to $500,000) in fiscal 2022 and the ramping up of the transfer to EARN as part of the total transfer requirement.

Exhibit 9

Comparison of RGGI-related Appropriations

Fiscal 2020-2022 Allowance

($ in Millions)

	2020	Working 2021	Allowance 2022	Change
Energy Assistance	**$19.9**	**$19.9**	**$31.9**	**$12.1**
Department of Human Services	19.9	19.9	31.9	12.1
Low and Moderate Income Energy Efficiency	**$6.2**	**$6.7**	**$6.7**	**$0.0**
Maryland Energy Administration	6.0	6.7	6.7	0.0
Department of Housing and Community Development	0.2	0.0	0.0	0.0
Energy Efficiency, All Other Sectors	**$5.7**	**$7.5**	**$7.0**	**-$0.5**
Maryland Energy Administration	3.1	5.0	4.5	-0.5
Maryland Department of Health	2.0	2.0	2.0	0.0
Department of General Services	0.5	0.5	0.5	0.0
Renewable Energy, Climate Change	**$10.5**	**$12.8**	**$11.5**	**-$1.3**
Maryland Energy Administration	4.8	6.8	5.2	-1.6
Maryland Department of the Environment	2.9	2.6	2.6	0.0
State Fleet Electric Vehicle Program*	2.4	2.3	2.3	0.0
Maryland Department of Commerce SMWOBA	0.0	0.2	0.5	0.3
Maryland Department of Labor EARN	0.5	0.5	1.0	0.6
Maryland Department of Natural Resources	0.0	0.5	0.0	-0.5
Administration	**$4.3**	**$4.5**	**$4.8**	**$0.3**
Maryland Energy Administration	4.3	4.5	4.8	0.3

EARN: Employment Advancement Right Now
RGGI: Regional Greenhouse Gas Initiative
SMWOBA: Small, Minority, and Women-Owned Businesses Account

*In fiscal 2021, the State Fleet Electric Vehicle Program was budgeted within the Maryland Energy Administration. In fiscal 2022, the funding is budgeted in the Department of Budget and Management, as it was in fiscal 2020.

Note: Numbers may not sum due to rounding, Administration expenses in fiscal 2021 and 2022 do not match Appendix K because the appropriations have been adjusted to reflect the distribution of the January 2021 2% general salary increase that is centrally budgeted. The fiscal 2020 actual for the Department of Housing and Community Development does not match Appendix K and has been adjusted to reflect the spending listed in the agency budget.

Source: Governor's Fiscal 2022 Budget Books; Maryland Energy Administration; Department of Budget and Management; Department of Legislative Services

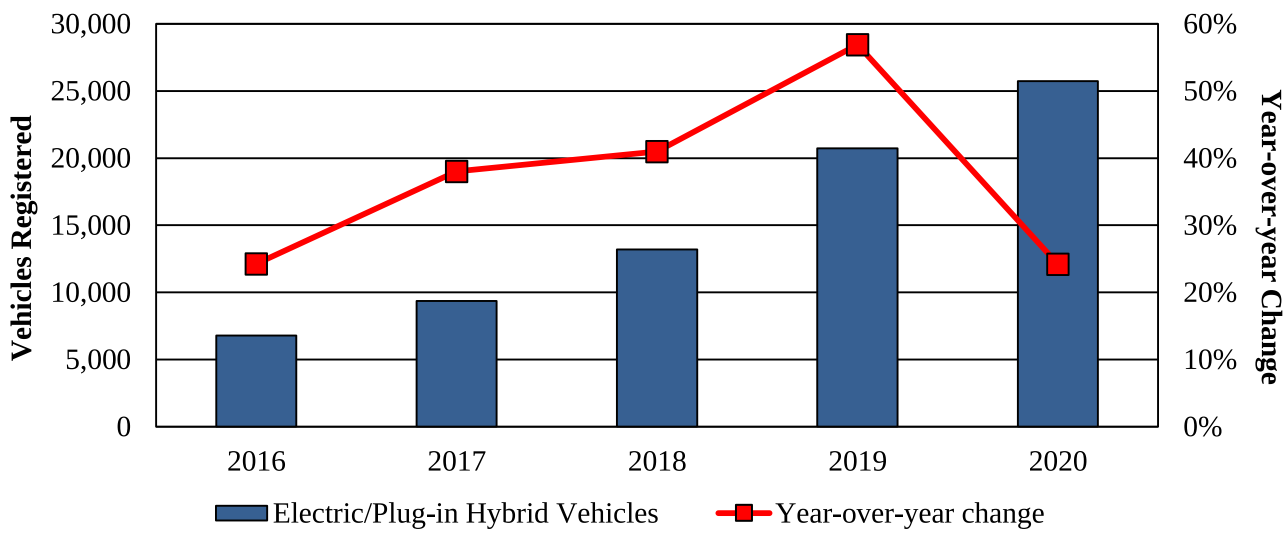
Spending on MEA programs decreases by $4.1 million, the largest share of which ($2.25 million) results from the transfer in budgeting of the State Fleet Electric Vehicle Program to the Department of Budget and Management (DBM). The fiscal 2020 program was administered by DBM but budgeted in MEA in fiscal 2021. RGGI-sourced spending also decreases for general energy efficiency programs and renewable and clean energy development to reflect changes in available fund balance and required spending in other areas of the budget. As in recent years, MEA is supplementing its spending in these areas with PSC-sourced revenue, allowing for higher spending in these areas than RGGI-sourced revenue alone could support.

2. MEA Proposes to Temporarily Revive Electric Vehicle Tax Credits

Status of the Electric Vehicle Market in Maryland

The State had a goal of achieving 60,000 electric vehicle registrations by 2020 through incentives, marketing, and education. As shown in **Exhibit 10**, through fiscal 2020, there were 25,742 electric/plug-in hybrid vehicles registered in the State (approximately 43% of the goal). The rate of growth slowed in fiscal 2020, an increase of 24% (approximately 5,000 vehicles), compared to fiscal 2019 (57% growth or approximately 7,500 vehicles). Conditions related to the pandemic including reduced activity at dealerships and the economic impacts later in the fiscal year likely factored into the slower growth rate in fiscal 2020. In addition, MEA notes that rules surrounding the phase out of federal tax incentives reduced the availability of these incentives for some popular models.

Exhibit 10
Electric and Plug-in Hybrid Electric Vehicles
Fiscal 2016-2020



Source: Maryland Energy Administration; Department of Budget and Management; Governor's Fiscal 2020-2022 Budget Books

Electric Vehicle Excise Tax Credit

From fiscal 2011 through 2020, the State provided incentives to support electric vehicle deployment through an Electric Vehicle Excise Tax Credit. The tax credit was altered, expanded, and extended through legislation several times, including expansion to broader types of vehicles. Under Chapters 362 and 363 of 2017 (the most recent extension), credits were authorized for new vehicles purchased and titled by July 1, 2020. Although legislation was introduced in the 2020 session to extend the date by which vehicles must be purchased and titled by to be eligible through July 1, 2023, no legislation was passed to extend the date.

Since the beginning of the program, legislation has authorized transfers from the SEIF to replace revenue lost by the TTF due to the tax credit. The authorized transfers varied over time:

- $279,000 in fiscal 2011;
- $939,600 in fiscal 2012;
- $1,287,000 from fiscal 2013 through 2017;
- $2,400,000 in fiscal 2018 and 2019; and
- $6,000,000 in fiscal 2020.

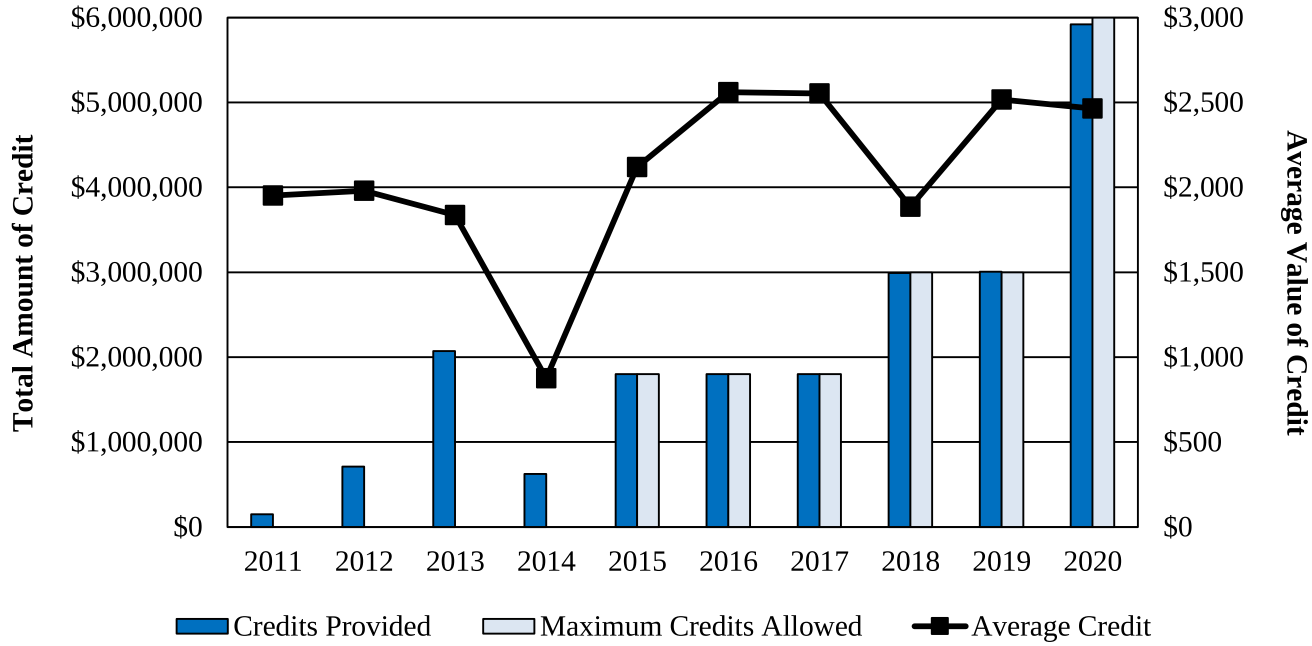
With the failure of legislation during the 2020 session, no transfer from SEIF for this purpose was authorized for fiscal 2021.

Credit Utilization

The initial legislation did not specify a total amount of credits allowed in a given year. However, subsequent legislation related to the program established maximums of varying levels. Chapters 359 and 360 of 2014 set the maximum credit per fiscal year at $1.8 million. Chapters 362 and 363 of 2017 increased the maximum amount of credits in a fiscal year to $3.0 million for fiscal 2018 through 2020. Chapter 213 of 2019 set the maximum amount of tax credit in fiscal 2020 at $6.0 million.

As shown in **Exhibit 11**, according to the Motor Vehicle Administration (MVA) the amount of credits provided reached the maximum credits allowed in each year since fiscal 2015, when such limits were established. In addition, MVA explained that the available fiscal 2019 credits were fully utilized on February 11, 2019, and for fiscal 2020, on September 13, 2019. As such, there were applications for eligible purchases that could not be paid before the functional expiration of the program on June 30, 2020.

Exhibit 11
Electric Vehicle Excise Tax Credit Utilization
Fiscal 2011-2020



Source: Motor Vehicle Administration; Department of Legislative Services

2021 Session Legislation

SB 152 (a MEA departmental bill) would authorize payment of the credits for eligible applications submitted before January 1, 2021, from the TTF. In addition, the legislation would authorize transfers of a maximum of $4 million from the SEIF to the TTF to offset a reduction in revenues from the payment of the tax credit. MVA reports that it has 3,385 applications pending from April 2019 through June 30, 2020, and an additional 485 applications from July 1, 2020, through December 31, 2020. At the average credit value in fiscal 2019 and 2020 (approximately $2,500), $9.68 million would be required to fund all pending applications or $11.6 million at the maximum credit value ($3,000).

The legislation would also authorize the use of ACP for zero emission vehicles, zero emission vehicle infrastructure, and other transportation programs. It would also add energy efficiency and energy storage as authorized uses of ACP funds. Under current law, as a result of Chapter 757 of 2019, these funds may only be used for loans and grants to support the creation of Tier 1 renewable energy sources in the State that are owned by or directly benefit low-income residents.

Currently, there is limited ACP received annually; the fund balance of these in the SEIF is less than $100,000. The annual RPS report with data for calendar 2019 indicated that $7.7 million of ACP is owed for that year. However, these funds are primarily owed by companies who filed for bankruptcy without meeting the requirements; thus, it is uncertain if or when the State would receive such funds. While ACP is limited to date, this expansion would allow a broader range of funding options for future vehicle incentives if receipt of ACP increases. These types of programs are currently funded with RGGI-sourced funds.

Operating Budget Recommended Actions

1. Adopt the following narrative:

   Strategic Energy Investment Fund Revenue, Spending, and Fund Balance: The committees are interested in ensuring transparency in Regional Greenhouse Gas Initiative (RGGI) revenue assumptions and spending included in the budget as well as available fund balance. The committees request that the Department of Budget and Management (DBM) provide an annual report on the revenue from the RGGI carbon dioxide emission allowance auctions, set aside allowances, and interest income in conjunction with the submission of the fiscal 2023 budget as an appendix to the Governor's Budget Books. The report shall include information on the actual fiscal 2021 budget, the fiscal 2022 working appropriation, and the fiscal 2023 allowance. The report shall detail:

   - revenue assumptions used to calculate the available Strategic Energy Investment Fund (SEIF) from RGGI auctions for each fiscal year, including the number of auctions, the number of allowances sold, the allowance price in each auction, and the anticipated revenue from set-aside allowances;

   - interest income received on the SEIF;

   - amount of the SEIF from RGGI auction revenue available to each agency that receives funding through each required statutory allocation, dues owed to RGGI, Inc., and transfers or diversions of revenue made to other funds; and

   - fund balance for each SEIF subaccount for the fiscal 2021 actual, the fiscal 2022 working appropriation, and the fiscal 2023 allowance.

Information Request	**Author**	**Due Date**
Report on revenue assumptions and use of RGGI auction revenue	DBM	With the submission of the Governor's Fiscal 2023 Budget Books

2. Adopt the following narrative:

   Maryland Gas Expansion Fund Activities: The fiscal 2022 allowance includes $26.32 million of funds from the Maryland Gas Expansion Fund. Fiscal 2020 spending from this fund totaled $4 million, and no activity is expected in fiscal 2021. Given the large increase in activity expected in the program with limited history on the functioning of the program, the committees request that the Maryland Energy Administration (MEA) submit a report providing information on the status of the application process, including applications received, evaluation criteria, and awards made. If awards have not been made as of the submission of the report, it should instead include information about the planned timeline for determining awards.

Information Request	**Author**	**Due Date**
Maryland Gas Expansion Fund	MEA	December 30, 2021

Appendix 1
2020 *Joint Chairmen's Report* Responses from Agency

The 2020 *Joint Chairmen's Report* (JCR) requested that the Maryland Energy Administration (MEA) prepare one report. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Revenue Generating Options from Electric Vehicle Recharging Equipment:*** MEA presented five options to address motor fuel tax loss from increased adoption of electric vehicles: (1) increasing motor fuel taxes; (2) carbon pricing – Maryland is participating in an effort to design a regional program under the Transportation and Climate Initiative; (3) mileage-based user fees/vehicles miles traveled – which has been piloted or studied in a number of states including a study that began in North Carolina, New Jersey, and Virginia in summer 2020; (4) electric vehicle registration fees – exist or are proposed in 20 states; and (5) charging fees through submetering electric vehicle recharging equipment – which was piloted in California. MEA concluded that some options require further study (charging fees) and mileage-based usage. In addition, costs related to equipment related to charging fees or electric vehicle fees could discourage adoption or present challenges to low-income households.

Appendix 2
Audit Findings

Audit Period for Last Audit:	July 1, 2016 – March 15, 2020
Issue Date:	December 2020
Number of Findings:	1
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	n/a

Finding 1: The Maryland Energy Administration did not have written policies and procedures for applying grant criteria when evaluating discretionary grant applications and for determining the amounts to be awarded. In particular, the Office of Legislative Audits noted that while criteria was listed in the solicitation, the weight each was given was not specified for determining grant awards.

*Bold denotes item repeated in full or part from preceding audit report.

Appendix 3
Object/Fund Difference Report
Maryland Energy Administration

Object/Fund	FY 20 Actual	FY 21 Working Appropriation	FY 22 Allowance	FY 21 - FY 22 Amount Change	Percent Change
Positions					
01 Regular	28.00	30.00	30.00	0.00	0%
02 Contractual	19.00	11.00	9.00	-2.00	- 18.2%
Total Positions	**47.00**	**41.00**	**39.00**	**-2.00**	**- 4.9%**
Objects					
01 Salaries and Wages	$ 3,540,605	$ 3,585,765	$ 3,762,390	$ 176,625	4.9%
02 Technical and Spec. Fees	576,936	662,287	593,135	- 69,152	- 10.4%
03 Communication	26,990	44,336	46,900	2,564	5.8%
04 Travel	98,877	223,190	116,426	- 106,764	- 47.8%
07 Motor Vehicles	1,684	2,406	1,880	- 526	- 21.9%
08 Contractual Services	1,937,481	2,870,772	2,502,755	- 368,017	- 12.8%
09 Supplies and Materials	25,304	15,000	5,000	- 10,000	- 66.7%
10 Equipment – Replacement	0	10,050	30,555	20,505	204.0%
11 Equipment – Additional	2,385	8,500	8,500	0	0%
12 Grants, Subsidies, and Contributions	31,768,702	39,957,750	55,776,132	15,818,382	39.6%
13 Fixed Charges	541,589	322,041	327,068	5,027	1.6%
14 Land and Structures	1,528,053	2,050,000	2,200,000	150,000	7.3%
Total Objects	**$ 40,048,606**	**$ 49,752,097**	**$ 65,370,741**	**$ 15,618,644**	**31.4%**
Funds					
03 Special Fund	$ 35,678,471	$ 48,552,883	$ 64,070,396	$ 15,517,513	32.0%
05 Federal Fund	4,217,806	1,047,873	1,139,306	91,433	8.7%
09 Reimbursable Fund	152,329	151,341	161,039	9,698	6.4%
Total Funds	**$ 40,048,606**	**$ 49,752,097**	**$ 65,370,741**	**$ 15,618,644**	**31.4%**

Note: The fiscal 2021 appropriation does not include deficiencies, targeted reversions, or general salary increase. The fiscal 2022 allowance does not include contingent reductions or annualization of the general salary increase.

Appendix 4
Fiscal Summary
Maryland Energy Administration

Program/Unit	FY 20 Actual	FY 21 Wrk Approp	FY 22 Allowance	Change	FY 21 - FY 22 % Change
01 General Administration	$ 5,559,819	$ 6,074,347	$ 6,289,609	$ 215,262	3.5%
02 The Jane E. Lawton Conservation Loan	1,528,053	2,050,000	2,200,000	150,000	7.3%
06 Energy Efficiency and Conservation Programs,	6,000,000	6,700,000	6,700,000	0	0%
07 Energy Efficiency and Conservation Programs,	7,175,926	5,058,029	7,500,000	2,441,971	48.3%
08 Renewable and Clean Energy Programs and	19,784,808	29,869,721	42,681,132	12,811,411	42.9%
Total Expenditures	**$ 40,048,606**	**$ 49,752,097**	**$ 65,370,741**	**$ 15,618,644**	**31.4%**
Special Fund	$ 35,678,471	$ 48,552,883	$ 64,070,396	$ 15,517,513	32.0%
Federal Fund	4,217,806	1,047,873	1,139,306	91,433	8.7%
Total Appropriations	**$ 39,896,277**	**$ 49,600,756**	**$ 65,209,702**	**$ 15,608,946**	**31.5%**
Reimbursable Fund	$ 152,329	$ 151,341	$ 161,039	$ 9,698	6.4%
Total Funds	**$ 40,048,606**	**$ 49,752,097**	**$ 65,370,741**	**$ 15,618,644**	**31.4%**

Note: The fiscal 2021 appropriation does not include deficiencies, targeted reversions, or the general salary increase. The fiscal 2022 allowance does not include contingent reductions or the annualization of the general salary increase.