Larry Hogan, Governor
Boyd K. Rutherford, Lt. Governor
Mary Beth Tung, Director

MARYLAND ENERGY ADMINISTRATION
Fiscal Year 2023 Operating Budget
Response to Department of Legislative Services Budget Analysis

Testimony of Mary Beth Tung
Director

Senate Budget and Taxation Committee
Public Safety, Transportation, & Environment Subcommittee
Chair: Cory V. McCray
February 28, 2022

House Appropriations Committee
Transportation and the Environment Subcommittee
Chair: Marc Korman
February 23, 2022

MEA wishes to extend its gratitude to the DLS analyst, Samuel Quist, for his comprehensive review of the agency budget. MEA concurs with both of his recommendations.

The staff at MEA understands and appreciates the public trust that is placed in us as we strive to promote affordable, reliable, and cleaner energy for the good of all Marylanders. This mission is critical, and we are happy to report that Maryland is being recognized nationally for our achievements in this arena.

Within this written testimony MEA addresses the areas in which the DLS analysis requested comment.

MEA Recent Achievements

In support of Maryland's goals, the MEA team works to promote affordable, reliable, and cleaner energy on a multitude of fronts, engaging in both programmatic and policy undertakings. Many of MEA's efforts are summarized in the annual Strategic Energy Investment Fund (SEIF) report, available to the public on MEA's website. Highlights from fiscal year 2021 touch many different segments of the Maryland economy, starting with Maryland residents, organizations, and businesses leveraging SEIF to help install over 29,000 kW of new solar photovoltaics. SEIF incentives provided by MEA will also help deploy more than 3,000 kW of additional solar capacity that will be made accessible to low and moderate income residents through community solar installations, as well as over 1,800 electric vehicle chargers across the state. MEA was also able to drive the growth of microgrids, distributed energy resources, and offer business-oriented energy efficiency programs targeted at data centers and combined heat and power installations; and continue the successful Low-to-Moderate Income Grant Energy Efficiency program (LMI EE), making 26 awards to non-profit organizations and local governments to enable these entities to keep delivering energy efficiency in the local communities they serve.

And Maryland's energy efforts have been nationally recognized, with the American Council for an Energy-Efficient Economy (ACEEE) ranking Maryland 6th nationally in its latest energy efficiency scorecard ranking for 2020, Maryland's highest rank ever on the State Efficiency Scorecard. Maryland was also ranked 4th on ACEEE's first and most recent State Transportation Electrification Scorecard.

But to continue to keep up this good work, Maryland must continue investing resources in these programs.

Low and Moderate Income Programs

In FY22, MEA launched the new Low Income Solar Program, a pilot program coupling clean energy with efficiency via supplemental grants to organizations already participating in the highly successful Low-to-Moderate Income Energy Efficiency Program (LMI-EE) program. This new program will help build long term value as well as bolster the capacity of local governments and nonprofit organizations to deploy clean energy in their communities. This program has generated substantial interest and MEA anticipates continuing this effort into FY23.

MEA's long standing LMI EE program provides funding to local governments, nonprofit organizations, and community groups to provide needed energy efficiency and condition improvements to homes and buildings, addressing energy affordability inequity issues experienced by economically vulnerable Marylanders. Between 2016 and 2020, the program funded the retrofit of over 9,600 homes and buildings, saving an estimated $3.4 million in energy costs while eliminating over 11,000 metric tons of carbon dioxide annually. In FY22 this program expanded to over $14 million to address the consistently large demand for energy saving retrofits, MEA anticipates awarding all of these funds based on applications received.

Demand for community solar available to LMI residents continues to be robust. In FY22, MEA will award over $2.5 million to nine community solar projects available for low and moderate income Maryland residents. This MEA program ensures these community solar projects provide utility bill savings to LMI subscribers while enabling residents who may not be able to install solar directly, such as renters, access to clean energy.

Clean Fuels Incentive Program (CFIP)

MEA has funded several nation-leading initiatives via the Clean Fuels Incentive Program, including funds to enable Montgomery County Public Schools via their vendor Highland Electric Fleets, to move forward with one of the largest electric school bus deployments in the United States. MEA also expanded electric vehicle charging and other clean vehicle efforts via this program. In FY22, MEA has received over $2 million in applications and anticipates awarding the vast majority of the requests.

Maryland Gas Expansion Fund

During the fiscal year 2022 (FY22) cycle, the program received eighteen applications requesting a total of over $39 million in funds to support over $61 million in projects. Collectively, MEA awarded the maximum unrestricted funds, $7.5 million, to fund 10 projects. These investments have the potential to generate significant job growth.

Collectively these investments are predicted to reduce greenhouse gas emissions by nearly 50,000 metric tons of carbon dioxide (CO2) per year, equivalent to taking nearly 11,000 passenger cars off the road or eliminating nearly 300 rail cars of coal per year.

Each one of these projects provides benefits to the environment and economy and the majority displace less clean and costly energy commodities such as propane and heating oil, resulting in deep reductions in greenhouse gas emissions.

SEIF Budget and Fund Balances

Regional Greenhouse Gas Initiative

Revenues from RGGI auctions have historically been volatile, sensitive to both market fundamentals and changes in local and national policy. Since the first auction, auction clearing prices have varied from $1.86 to $13 per allowance. All the while, the CO2 allowance budget has decreased from 188.1 million allowances in CY09 to 100.7 million allowances in CY21.

As a result of the dramatic drop of clearance prices and revenues that followed RGGI Auction #30 in December 2015, MEA adopted a conservative approach to the projection of RGGI revenues in the state's budget. Under this approach, auction revenues were projected at the auction floor price, assuming all available allowances sold. This conservative approach built a definitive revenue base in the face of RGGI volatility and allowed for the proper budgeting of revenue over the auction floor price in a subsequent budget cycle. Proceeds received above the auction floor price were then budgeted in a future fiscal year cycle.

While the conservative budgeting approach outlined above had merit in ensuring budgets were developed based on realized RGGI proceeds, this methodology also resulted in fund balances accruing in the SEIF while awaiting the next budget cycle, if the RGGI auction price was higher than the floor. The last time the RGGI clearing price

1800 Washington Boulevard, Suite 755, Baltimore, MD 21230 | Phone: 410-537-4000 | Fax: 410-537-4096
www.Energy.Maryland.gov

was near the CY21 floor price of $2.38 was Auction #36 in June 2017, when the floor price was $2.53. Since auction #36, the RGGI clearing price has fluctuated between $3.79 and $13 per allowance, with the $13 per allowance clearing price occurring in the December 2021 auction. With this in mind, MEA is amending the RGGI proceeds budgeting process to be based on a rolling average of the clearing prices of the two most recent fiscal year RGGI auctions. With this new methodology, the budget forecasts will be based on more recent RGGI activity and should generally allow a greater share of RGGI proceeds to be budgeted more quickly, while still in a fairly judicious manner based on the average auction price results of the last two years.

Under this new budgeting methodology, there is less buffer to possible downturns in RGGI auction prices. Therefore, it is prudent to maintain modest SEIF fund balances in an effort to provide fiscal stability and continuity of SEIF funded activity if and when RGGI auction prices decline.

MEA Comments Per DLS Analysis Request

DLS Analysis: MEA should comment on how it is preparing to use or oversee federal funds available to it or other entities in the State through the supplemental appropriation to SEP or through other energy-related provisions of the IIJA.

MEA Comment: The Maryland Energy Administration is well-positioned to oversee the deployment of energy-related federal funding flowing to Maryland through the Infrastructure Investment and Jobs Act (IIJA).

Nationally, MEA is an active member of the National Association of State Energy Offices (NASEO) and the Clean Energy States Alliance (CESA), both NASEO and CESA have been actively engaged with the U.S. Department of Energy on preparations for the IIJA.

Within the state, MEA is a member of Governor Hogan’s Subcabinet on Infrastructure and has been working closely with the Maryland Department of Transportation collaborating on electric vehicles (EV) and corridor planning. Additionally, MEA has entered into discussions and is coordinating with Maryland utilities and the PSC on funding related to Maryland’s utility grid.

Finally, at the agency level, MEA currently manages a number of federal grants, some with similar compliance provisions as those that are likely to be required of IIJA funding. MEA additionally has a number of staff members with experience from the American Recovery and Reinvestment Act, either at the state or county level. This hands-on experience with the implementation of federal requirements will be invaluable as Maryland deploys the energy related IIJA funding.

DLS Analysis: MEA should comment on its planned use of MFN funds in future fiscal years.

MEA Comment: MEA plans to continue to program MFN funds to provide grants for combined heat and power (CHP) and commercial energy efficiency improvements as directed by PSC Order 88128. MEA anticipates continuing to budget these funds until exhausted. MEA notes that these funds must be used for certain prescribed uses in defined areas of the state (i.e., the Pepco and Delmarva utility territories); these limits make these funds more challenging to deploy due to the narrower scope of allowable uses. MEA continues to draw these funds down as applicable efforts are identified.

DLS Analysis: MEA should describe how these grants will be used to support school decarbonization efforts.

MEA Comment: MEA will deploy a FY22 program, in partnership with the Interagency Commission on School Construction (IAC), to incentivize local education agencies (LEA) to create the capacity to systematically decarbonize their schools and other facilities. Pursuant to Chapter 608 of the 2021 Laws of Maryland (effective July 1, 2021), each Maryland LEA is required to adopt or update an energy policy for its elementary and secondary school facilities. This new program is designed to help facilitate LEAs to meet and exceed these requirements.

The program is anticipated to provide direct grants to LEAs to support efforts to collect and leverage energy cost and consumption data. The program also anticipates funding consultants and similar support to enable LEAs to incorporate net zero energy elements into their long-range plans for future school improvements, including a strong emphasis on minimizing life cycle energy consumption, GHG emissions, and cost. MEA's budget proposes continuing this work in FY23.

DLS Analysis: MEA should comment on why MGEF funds will not be used for the purpose for which the General Assembly restricted them.

MEA Comment: The General Assembly restricted the funds from the AltaGas merger with WGL to applications for bill payment assistance and arrearage retirement for residential electric and natural gas customers in the Department of Human Services (DHS) Office of Home Energy Programs (OHEP). Ostensibly, there was no justification to use the funds for the purpose they were restricted, which is contrary to the express terms of PSC Order 88631.

Additionally, the Attorney General has advised that redirecting these funds presents "[a] risk that directing a majority of the $30.32 million to the PSC for utility arrearage assistance would be viewed by a court as an unconstitutional abrogation of AltaGas's vested rights." See generally Muskin v. SDAT, 422 Md. 544.

DLS Analysis: MEA should comment on how this method for redistribution of these funds was chosen, since it does not meet the statutory distribution requirements for renewable and clean energy and does not allow all sub accounts to share in the additional revenue from the administration cap.

MEA Comment: MEA proposes the following for the budget exercise of projecting the dollar amount to be reallocated to non-administrative subaccounts once the $5 million cap is reached in the administrative subaccount. There was a formula error in the calculations previously provided for budget analysis. It should be noted the revenue projected for the remainder of FY2022 and all of FY2023 is limited to the $6.50 auction price used for the budgeting purposes; however, MEA allocates the actual proceeds when received in the SEIF clearing accounting.

	DHS EUSP	EE L/M	EE Other	RE
FY2022				
Reallocation of Projected Administrative Subaccount Excess	$1,036,896	$276,506	$276,506	$483,885
% of Excess Allocated	50.00%	13.33%	13.33%	23.33%
FY2023				
Reallocate of Projected Administrative Subaccount Excess	$625,757	$166,868	$166,868	$292,020
% of Excess Allocated	50.00%	13.33%	13.33%	23.33%