Wes Moore, Governor
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MARYLAND ENERGY ADMINISTRATION
Fiscal Year 2025 Operating Budget
Response to Department of Legislative Services Analysis

Testimony of Paul G. Pinsky
Director

House Appropriations Committee
Transportation and Environment Subcommittee
Chair: Delegate Courtney Watson
January 31, 2024

Senate Budget and Taxation Committee
Public Safety, Transportation & Environment Subcommittee
Chair: Senator Sarah K. Elfreth
February 5, 2024

Thank you for the opportunity to present these comments on behalf of the Maryland Energy Administration (MEA)

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

1. Adopt committee narrative requesting annual reporting on the Strategic Energy Investment Fund revenue, spending, and fund balance.
2. Adopt committee narrative requesting a report on federal funding available from the Infrastructure Investment and Jobs Act and the Inflation Reduction Act.
3. Adopt committee narrative requesting a report on revenues transferred from the Strategic Energy Investment Fund to the Dedicated Purpose Account.

It is important to set some context for your budget deliberations.

- The Climate Solutions Now Act (CSNA), passed into law in 2022, advanced the most ambitious greenhouse gas reduction laws of any state in the nation. The law requires

Maryland to reduce statewide carbon pollution 60% from 2006 levels by 2031 and achieve net-zero emissions by 2045 but does not outline a dedicated funding source to implement the plan. The Maryland Department of the Environment in late 2023 released a proposed path forward under the CSNA via “Maryland’s Climate Pollution Reduction Plan.” MEA was a significant contributor to this plan and is a partner in delivering upon its vision.
- The State has set a goal of 100% Clean Energy by 2035.
- The passage of the federal Infrastructure and Investment Jobs Act (IIJA) and the Inflation Reduction Act (IRA) has and will continue to bring new investment dollars into Maryland for clean energy and Maryland to address climate change.
- 2023 was the hottest year on record.

MEA points out these items because they frame our Governor’s Allowance and the urgency to increase our efforts.

Last year the agency distributed over $82 million in grants, loans, rebates and credits, an increase from FY22 when MEA distributed $64 million. Each action has to be reviewed and approved and, finally, tracked as to its progress. It is incumbent that these funds are spent appropriately.

As we focus on deploying an ever increasing array of resources, particularly the Solar Alternative Compliance Payment, careful consideration of the resources necessary to implement and monitor program funding is essential. MEA only has access to administrative funding via the RGGI formula, which is capped via formula and is completely independent of the amount of ACP proceeds.

These two funds have grown significantly. The ACP has grown because we are not meeting our solar RPS goals, necessitating the payment of the ACP. The RGGI fund has increased because of the rise in power plant pollution auction prices. MEA’s $200 million FY25 Governor’s Allowance is an increase of approximately 17% over the FY24 working appropriation. Program continuity is essential as the conversations and outreach that MEA is conducting this year helps engage stakeholders and potential projects that may apply for funding in FY25.

Ensuring equitable access to solar beyond those who have the financial means to purchase or finance solar is essential to achieving the state’s RPS goals while addressing economic and environmental justice. MEA has expanded its efforts under the Solar Energy Equity Program, (formerly the Low-Income Solar program) to provide solar on homes. This program provides access to solar at no cost, reducing long-term cost and energy cost burdens MEA is working with multi-family stakeholders to determine the best way to expand this program to multi-family communities, while ensuring as much of the benefit as possible flows to residents, including renters.

The Low-to-Moderate Community Solar Program provides Marylanders experiencing low incomes an opportunity to participate in the solar industry while reducing their electric bills by at least 20% from standard offer service. Community solar is essential as it provides an avenue for those who do not own their homes or may have other constraints to access solar energy at a savings. MEA has finalized a to-be-published study of landfill sites suitable for community solar projects as well and has begun outreach to the custodians of these sites (typically local governments). In FY23, MEA provided over $9 million in grants to 60 projects that will provide benefits to 4,600 subscribers experiencing low and moderate incomes, stimulating an estimated $150 million in investment to support 69 megawatts of new solar. As the overall Community Solar program shifts from pilot to a permanent program, demand for this program will only grow.

The Energy Efficiency Equity Program, formerly known as the Low- to Moderate-Income Energy Efficiency Program, provides funding to community based organizations and local government efforts to reduce the energy cost burden endured by many Marylanders struggling with economic hardship by reducing usage through improvements to homes and buildings. Funding from MEA continues this investment and additional funds are expected to flow to these needs via portions of upcoming federal grants.

This year MEA launched a substantially revised Decarbonizing Public Schools Program, providing $24 million to fund investments in schools that generate more clean energy than is needed to operate the buildings; bring solar to new and existing schools with an emphasis on overburdened and underserved communities; and provide needed investment in energy efficiency and electrification. MEA's FY25 budget is at a similar scale.

The once-in-a-generation investment of IRA and IIJA present tremendous opportunities and challenges to advance electrification and equity. MEA is the formula recipient of over $159 million in funds to deploy heat pumps, efficiency, and investment in communities, as well as bolstering the resiliency of our grid and its ability to integrate clean energy. MEA was a partner or supporter of efforts that resulted in an additional $63 million in additional awards. MEA invested in a team early in the process to ensure that the agency was well positioned to pursue funds. While this injection of funding will be transformational, we cannot underestimate the level of effort that is needed to launch and administer this large and comprehensive portfolio of programming.

To better ensure that grant applications are being developed in the most effective way, MEA built two new tools – or metrics – to more intentionally prioritize our efforts to both shift to clean energy and guarantee that disproportionately affected communities, that have been ignored or underserved in the past, receive a significant portion of the benefits of the state's efforts and resources.

Specifically, we developed a tool to allow the Agency to analyze grant proposals under a lens that allows MEA to see that Maryland is getting the best "bang for its buck" in addressing climate change and reaching our mandated reduction goals. To make sure that projects are being compared equally, we will measure the greenhouse gas reductions per dollar for each project.

The second (and equally important) lens is to ensure that the benefits from any investment accrue in a significant way to communities that have been disproportionately affected by climate change (and associated ills, including health). This is sometimes referred to as Justice40. Much of the focus will be on low- and moderate-income black and brown communities. Specifically, this tool aids MEA in administering ACP-funded programs.

We have ambitious plans that are thoughtful, intentional, fulfill the goals of the state, and underscore the seriousness with which MEA is confronting the climate crisis. MEA's FY25 Governor's Allowance will help make Maryland safer, make Maryland more affordable, make Maryland more competitive, and make Maryland a cleaner place to live.

MEA Comments Per DLS Analysis Request

1) Page 10: MEA should comment on the use or planned uses of these funds (Maryland Gas Expansion Fund) in fiscal 2024.

   "9,250,000 in special funds is added to the appropriation for program C90G00.01 General Administration and Hearings within the Public Service Commission D13A13.08 Renewable and Clean Energy Programs and Initiatives for the purpose of repairing existing natural gas infrastructure in the Washington Gas service area contingent on the enactment of legislation that authorizes the Maryland Gas Expansion Funds to be used for repair of existing natural gas infrastructure in the Washington Gas service territory. Funds not expended for this added purpose may not be transferred by budget amendment or otherwise to any other purpose and shall be canceled"

2) Page 10: The fiscal 2025 allowance does not include funding budgeted from this source; however, an estimated balance of $1.6 million is projected after accounting for fiscal 2024 spending. MEA should comment on planned uses in future fiscal years for the remaining funds (Maryland Gas Expansion Fund).

   MEA has no plans on how to spend the $1.6 million balance in the Maryland Gas Expansion fund (MEIP) at this time. The uses of these funds are currently restricted to the uses outlined in Maryland Public Service Commission (PSC) Order 88631. The MEA MEIP was created as a result of the PSC Order 88631 that established a Maryland Gas Expansion Fund ("MGEF") to promote natural gas expansion in the state and provide Local Distribution Companies, state and local government entities, Maryland businesses, and non-profit organizations the financial resources to do so.

3) Page 25: MEA should comment on its decision to use a higher estimated RGGI auction clearing price for its fiscal 2025 revenue projections compared to more conservative estimates used in prior years.

   Utilizing the seven most recent RGGI auctions provides a better reflection of recent trends in RGGI auctions. This method should reduce over attainment which has increased in recent years, while retaining a sufficient cushion for an unexpected decline in the RGGI clearing price at future auctions.

4) Page 27: MEA should comment on plans to allocate the remaining $500,000 that the SMWOBA was underfunded in fiscal 2024 so that the full $7.0 million is able to be transferred by fiscal 2028 as mandated by Chapter 757.

MEA has encumbered the funds for the Department of Commerce as mandated by statute. However, MEA will not transfer the funds until requested by invoice based upon the negotiated MOU.

5) Page 29: MEA should provide information on the fiscal 2023 balances after taking into account encumbrances to reflect only the available balance.

The FY23 SEIF Fund Balance was $345 million. The balance consists of the following items: $71 million for DHS which the law requires to stay in their subaccount until invoiced. The Department of Commerce, Department of Labor, and Department of Budget and Management each have several million dollars remaining in the fund balance of Renewable and Clean Energy Programs that they have not submitted invoices against. The Administration fund balance was at $30.1M as the RGGI auctions were increasing, interest earned on the fund balance was increasing, and MEA was appropriated $5.0 million in FY23. The balance is reserved for future program expansion and to provide a cushion against possible future declines in RGGI auction revenue. There are several programs including Offshore Wind Development, Exelon Animal-Waste-to-Energy ACP and Maryland Expansion Fund that had a combined $17.9 million in FY23 but are projected to have a FY24 year-end balance of $1.8 million fund balance. The Renewable Portfolio Standard ACP received a substantial increase in revenue from several thousand to over $70 million. MEA did not have the personnel resources to develop and administer programs at that time. The FY24 budget provided MEA additional resources to help meet the growing expansion of programs going forward.

6) Page 30: MEA should comment on the reasons for the accrual of such a large balance in the Administration subaccount.

MEA did not reallocate Administration funding into any other subaccount in FY25 budget, leaving a larger balance. By statute, MEA is appropriated 10%, up to $7.5 million, beginning in FY24. However, the FY25 budget transfers $21.8 million from the Administration sub account into the Dedicated Purpose Account.

7) Page 31: MEA should brief the committee on the specific sources of the $90 million for the Climate Pollution Reduction Plan.

The chart below describes the specific sources of funding. These funds come from fund balances not utilized in MEA's FY25 Governor's Allowance.

Energy Assistance	***Energy Efficiency Low/Mod***	***Energy Efficiency Other***	***Administration***	***ACP***
8.0 Million	*10.5 Million*	*6.6 Million*	*21.8 Million*	*43.1 Million*