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Fiscal Year 2016 Operating Budget Testimony

Strategic Focus

The mission of the Maryland Energy Administration (MEA) is to promote affordable, reliable, clean energy. MEA's programs and policies help lower energy bills, fuel the creation of jobs, address environmental and climate impacts, and promote energy independence. MEA's duties, as outlined in State Government Article §9-2003, run the full spectrum of State energy administration:

- provide advisory, consultants, training, and educational services, technical assistance, grants and loans in order to establish/carry out sound energy policies or practices;
- evaluate and coordinate energy policies and activities among agencies and local governments;
- collect, analyze, and evaluate energy statistics and information and coordinate information related to energy resources throughout the state;
- service as liaison between federal, sister states and Maryland state agencies on all matters related to energy;
- develop and conduct education and communication programs on energy production, supply, and conservation;
- provide for, encourage and assist public participation in energy programs;
- collaborate with DGS to monitor state agency energy management and conservation efforts;
- coordinate and direct integrated energy planning for state agencies and the public that recognizes the benefits and costs of energy conservation and improved efficiency;
- promote transfer and commercialization of energy conservation methods and technology;
- cooperate and coordinate with other state agencies in research and development of energy conservation methods and alternative energy technologies; and
- develop strategic plans and implement policies relating to energy supply management including the promotion and supervision of research on alternative fuels and energy emergency management.

MEA Year in Review

In FY 2014, as a result of successful program changes by the Regional Greenhouse Gas Initiative (RGGI), MEA set out to lay the foundation for programs, initiatives, and policies that will continue to mature through FY 2016. These efforts help ensure that Maryland achieves its energy goals while assisting all Marylanders to reach their specific energy needs. The following are some highlights of our FY 2014 accomplishments:

- In its second year, the Maryland Smart Energy Communities Grant Program continues to succeed by encouraging local jurisdictions to set energy policies related to renewable energy, energy efficiency and transportation. In FY 2014, MEA awarded grants to 36 communities, helping the communities to reduce operating costs, improve environmental performance, and encourage better energy decisions among residents and local businesses.
- The Clean Energy Grant Program provides incentives for solar photovoltaic, solar water heating, geothermal heating and cooling, and wind energy systems. The program also has a small carve out for commercial-scale Solar Photovoltaic/Electric Vehicle Charging Station Canopy systems. The

Clean Energy Grant Program awarded approximately twenty-four hundred grants with an anticipated annual savings of 31.7 million kWh.

- The EmPOWER Clean Energy Communities Low-to-Moderate Income Grant Program is designed to provide grants for energy efficiency initiatives to non-profits and local government agencies that serve low and moderate income Marylanders. The direct energy efficiency improvements are provided by local governments, non-profit organizations, and religious entities to Maryland's vulnerable citizens; these local projects are facilitated by the grants from MEA. Past projects include residential whole building upgrades where an audit identifies and recommends cost effective energy measures, while also detecting and ameliorating health and safety concerns, and energy efficiency improvements to homeless shelters. In FY 2014, MEA awarded 62 grants that to date have resulted in an estimated annual savings of 1.9 million kWh and 13,569.9 MMBTU in projects that have made improvements in more than 2,200 houses, apartments, and buildings across the State.
- In FY 2014, MEA continued its development of initiatives to advance a major offshore wind project off of Maryland's Atlantic Coast. MEA maintains partnerships with sister agencies such as the Maryland Department of Natural Resources, Maryland Ports Administration, and the University of Maryland System, to perform ecological surveys to understand the natural environment of the Maryland Wind Energy Area (WEA). Major initiatives from the Offshore Wind Program include a High Resolution Geophysical Survey of the federally-designated WEA; a cost-share partnership with the U.S. Department of the Interior to conduct a Passive Acoustic Monitoring program for marine mammals in the WEA; and a major analysis of Maryland port sufficiency to accommodate offshore wind energy deployment.
- MEA launched the EmPOWER Maryland Challenge: Commercial and Industrial Grant Program to increase the energy efficiency gains in the commercial and industrial building sector. Approximately 60% of the state's electricity use is in the C&I sector yet this sector only accounts for about 31% of the energy savings realized to date. This program targets planned retrofits in this sector and offers grants to encourage deeper electricity savings through the execution of projects involving multiple energy measures. In FY 2014, MEA awarded 24 grants with an anticipated savings of 21.7 million kWh.
- The Kathleen A. P. Mathias Program focuses grants on cost effective deep retrofits in Maryland's agriculture sector. Through the program MEA creates case studies and shares information on the projects, allowing farms and businesses to make informed decisions about pursuing similar upgrades. The overall goal of the program is to highlight best practices and cost effective retrofit opportunities. In FY 2014, MEA awarded 13 grants with anticipated annual savings of 728,278 kWh and 9,204 MMBTU.
- The Game Changers Competitive Grant Program supports the deployment of innovative clean energy projects in the State of Maryland. Game Changer projects must display the potential to significantly advance the State's clean energy market, using commercially available technologies in projects that are physically located in Maryland. MEA, through this program, helped install the first commercial solar microgrid in the State. This project demonstrated advanced battery storage systems that can be used during times of grid outages. This one example has launched several other initiatives related to grid resiliency through renewable battery backup storage systems throughout the State.

- Launched in FY 2014, the Electric Vehicle Charging at MARC and Metrorail Program is expanding the capacity of the charging of Plug-in Electric Vehicles at rail transit stations throughout the State. In conjunction with the Maryland Transit Administration, this program is installing Electric Vehicle Supply Equipment (EVSE) to at least seven and up to twenty different locations throughout the MTA network.
- The Energy Resiliency Grant program was developed as a response to the aftermath of Hurricane Sandy throughout the East Coast. Hurricane Sandy left fueling stations with no power and motorists stranded, including vehicles used for evacuation. The program reduces the financial burden on Maryland service stations to become more energy resilient and provides Maryland citizens access to fuel during power outages. The program offers grants to offset the cost of planning, designing, wiring, and installing backup power generators at Maryland service stations. In FY14, MEA successfully provided grant funding to enable 18 service stations to install back-up generators, with another 7 stations pre-wired for back-up generators. In FY 2015, the program expands eligibility to include volunteer firehouses as these firehouses possess the ability to act as emergency shelters during times of crisis.
- In FY 2014, MEA in cooperation with the Department of Public Safety and Correctional Services (DPSCS), and the Department of Juvenile Services (DJS), entered into a Solar Feasibility Study. This study looks into the possibility of the installing solar thermal technologies on DPSCS and DJS facilities in order to reduce those facilities' energy bills.

FY 2016 Programs

As discussed in the DLS analysis, the fiscal year 2016 programs built on the successes highlighted above and continued in the current fiscal year 2015. Programs initiated this year and continued into fiscal year 2016 include:

- Combined Heat and Power (CHP) initiative designed to expand the benefits of this technology in Maryland hospitals and waste water treatment facilities, thereby increasing the reliability of critical infrastructure.
- Micro-Grid/Grid Resiliency Program: MEA will provide grants to support projects that leverage state of the art power controls, communication, and building automation technologies that participate in Demand Response markets or programs. The program was created as a result of the recent Resiliency Through Microgrids Task Force study of the statutory, regulatory, financial, and technical barriers to the deployment of microgrids. Both of these programs follow in the wake of widespread electricity outages from the 2010 "Snowmageddon" blizzards, 2011's Hurricane Irene, and 2012's Derecho and Hurricane Sandy, where the critical need for resiliency and energy security were front page news for months.

Conclusion

MEA's policies and programs are designed with sustainability in mind – reducing peak demand and overall energy consumption, increasing the production of in-state renewables and reducing greenhouse gases. These efforts leverage available funding and advance the state's efforts to promote affordable, reliable, clean

energy and to help lower energy bills, fuel jobs creation, address environmental and climate impacts, and promote energy independence.

Responses to DLS Recommendations/ Issues

DLS Analysis (Page 7): By contrast, after substantial progress was made in achieving the per capita electricity consumption goal between calendar 2011 and 2012, only modest progress was made in calendar 2013 (an additional reduction of 0.6 percentage points). Through calendar 2013, the State has achieved a reduction of 9.7% in per capita electricity consumption, slightly less than two-thirds of the goal. Substantial additional reductions would be required in calendar 2014 and 2015 to meet the goal. MEA indicates that one difficulty with the current measure (a top down approach) is that the data captures all changes in electricity consumption, including those related to improvements in the economy or increased use of electric vehicles. Weather may also factor into the per capita electricity consumption, given the extreme cold weather in early calendar 2014, additional reductions may be limited in that year. **MEA should comment on the likelihood of meeting the goal.**

MEA Response: Preliminary data for 2014 total energy sales and EmPOWER program savings have just become available. Further, the utilities 2015 program plans have been approved with modification by the Public Service Commission. These figures are still subject to revision, but MEA has incorporated the current estimates into our projections for 2015. In the updated projections, the State is estimated to attain a 12.8% reduction in per capita energy usage from a 2007 baseline by the end of 2015. Of this, 9.8% are projected to come from Utility and State programs, with the remaining 3% from other factors such as federal appliance standards, building code adoption, weather, and economic and population factors. While short of the original 15% reduction goal, the programs alone are projected to save nearly 5.5 million MWh annually by the end of 2015. By comparison, the largest coal-fired plant in the state, the 1,370 MW Brandon Shores facility, generated roughly 5 million MWh in 2012 and 2013. Further, the absolute quantity of electricity sales in the State is projected to be over 4 million MWh lower in 2015 than in 2010, and approaching levels last seen in 2001, despite substantial growth in the economy and population over the past 15 years.

DLS Analysis (Page 7): This (ACEEE) scorecard is based on policies and actions in the state as a whole and not all would or could be attributed solely to MEA. As shown in Exhibit 2, since the 2011 scorecard, Maryland has been ranked in the top 10 of states in the scorecard. Out of a maximum total score of 50, since the 2011 scorecard, Maryland's score has been at or near 30. In the 2014 scorecard, Maryland's strongest category was in the area of building energy codes (which measures both code stringency and compliance) where the State achieved 6 of 7 possible points. In that scorecard, Maryland's weakest category was in the area of appliance standards where the State achieved 0.5 of 2.0 possible points. ACEEE noted that most of the appliance standards in Maryland have been preempted by federal standards. In the future, Maryland's ranking and score is likely to be impacted by the outcome of the current planning process for EmPOWER Maryland (more fully discussed in Update 1). **MEA should comment on Maryland's ranking in the ACEEE and how changes in the EmPOWER Maryland Program might impact the State's ranking in the future.**

MEA Response: While MEA obviously cannot predict how ACEEE will rank Maryland in the future, a few observations can be drawn from the scorecards of Maryland and other top ranking states. Maryland performs excellently in several categories, including Building Codes and State-led Initiatives, and is well above average in Transportation and CHP. The largest gap between Maryland and other top performing states is in the Utility Programs. ACEEE noted that after a slow ramp up, utility programs are now attaining an above average savings rates. They also note the State's lack of progress on natural gas savings, despite having the legislative authority to run natural gas programs.

MEA has been working with myriad partners over the past two years to develop recommendations for energy efficiency and demand response past 2015. We participated in hearings with the PSC discussing cost effectiveness and goal setting methodologies. To the extent that these programs continue to advance, and if the PSC sets goals post 2015 that continue to drive above-average energy savings, it is possible that this portion of the ACEEE ranking may be improved.

DLS Analysis (Page 8): MEA's Managing for Results (MFR) submission, with limited exception for two pay-as-you-go programs, focuses on statewide activities rather than individual program outcomes. MEA has several years of experience with programs funded from the SEIF and as a result could start measuring outcomes from specific programs. **The Department of Legislative Services (DLS) recommends MEA submit new performance measures with its fiscal 2017 MFR submission to track outcomes from specific programs.**

MEA Response: CONCUR

DLS Analysis (Page 14): An additional \$6.0 million would be available to the MOWBDF if an offshore wind application is approved. The approved applicant is required to contribute \$2.0 million at three separate milestones (1) 60 days after Public Service Commission (PSC) approval of the application; (2) one year after the initial deposit into the fund; and (3) two years after the initial deposit into the fund. As of this writing no application for an offshore wind project has been filed with PSC. **MEA should comment on its long-term plans for the MOWBDF given that only \$4.0 million is currently available to the fund.**

MEA Response: The MOWBDF Advisory Committee recognizes the businesses' needs exceed the \$4.0 million currently available. The present initial activities involves application for a US Department of Commerce 'Market Development Cooperator Program' grant which leverages export funding to increase growth opportunities for Maryland's businesses. Outside of that, current planning for the Business Development Fund does not extend to the additional \$6 million that a project developer would be required to contribute upon receipt of an OREC order from the MD PSC. Rather, short and medium term planning incorporates activities, such as the development of a 'comprehensive supply chain map by function and competency', will better inform future planning decisions and increase the portfolio of investment opportunities, should such additional capital become available. Early investments have been tailored to the existing opportunity and to enhancing future decision-making processes with greater strategic understanding of the sector as it develops in Maryland.

DLS Analysis (Page 15): Based on the funding allocation plan, the CIF would have been depleted in fiscal 2016. However, PSC revised the distribution for some programs, including one program funded within MEA

(the Next General Energy Efficiency Gains for the Industrial Sector program) in December 2014 due to spending patterns within the program. These funds, \$304,295, are currently appropriated in MEA's fiscal 2015 appropriation, but if not spent in that year, would need to be re-appropriated because the funds are not included in the fiscal 2016 allowance. **MEA should comment on when it intends to spend and, if necessary, appropriate the remaining funds.**

MEA Response: The PSC distribution revision was a fund transfer phasing adjustment within fiscal year 2015 and will not impact the fiscal year total funding provided. MEA has already encumbered the majority of the Next Generation Energy Efficiency Gains for the Industrial Sector program's fiscal year 2015 appropriation. MEA intends to use the remaining fiscal year 2015 funding for evaluation, measurement, and verification (EM&V) activities, as required by the Public Service Commission's Order #86787, and for additional energy program activities, to be completed by the Regional Manufacturing Institute (RMI), MEA's grantee and the implementer of the NGEEG program. Thus MEA does not anticipate a need to re-appropriate any fiscal year 2015 appropriation in fiscal year 2016.

DLS Analysis (Page 18): Despite a reduction in the number of allowances available for auction in March and June 2015, MEA projects a lower auction clearing price (\$4.60) than occurred in the last three auctions, while projecting a higher auction clearing price (\$5.67) for the September and December 2015 auctions with the same number of allowances expected to be auctioned. **MEA should comment on the reason for the projected auction clearing prices in the first two auctions in calendar 2015 given the recent history.**

MEA Response: The RGGI Inc. economic model upon which budget projections are based is a calendar year projection of usage and demand for allowances resulting in an annual revenue projection. Because no mechanism exists to credibly project auction by auction, MEA equally divides these projections into the four auctions and realigns for the fiscal year. Recent history shows this method to be fairly successful. The nature of the budget process rewards a conservative approach due to the greater consequence of overstated budgeted revenue.

The March and June auction prices were adjusted downward to maintain the total revenue projection of the model. While one could assume higher auction revenues based on the immediate previous auction(s), the historic volatility of RGGI auctions combined with the conservative rigor required of the budget process, warrants maintaining the modeled annual projection rather than attempting to parse each auction without a deliberate analytical model.

DLS Analysis (Page 21): Under current law, the administrative allocation is up to 10% but no more than \$5.0 million (previously \$4.0 million). In recent years, as that cap has been met, the excess revenue had been redistributed among the energy efficiency allocations and renewable energy. The energy assistance allocation did not receive any of this excess revenue in the past because of the limitation in the statute allowing for energy assistance to receive up to 50%. The BRFA of 2014 changed the energy assistance allocation to at least 50%. This change, in addition to guaranteeing that the energy assistance allocation would receive 50% of the revenue, would allow the energy assistance allocation to share in the redistribution of excess revenue from the administrative allocation. However, Appendix T in the Governor's budget books indicates that the current revenue allocation plan in fiscal 2015 and 2016 does not provide the energy assistance allocation a

share of the excess revenue. The estimated impact of this plan is shown in Exhibit 7. A similar, but smaller, impact from this decision also occurs in fiscal 2015. **MEA should comment on why given the change in the allocation, which should allow the energy assistance allocation to share in the redistribution, the current plan does not provide any of the redistribution to the energy assistance allocation.**

MEA Response: The allocation over \$5M for Administration has not been allocated to the EUSP due the continued high level of unused funds from RGGI revenues in the DHR subaccount of the SEIF. In addition to the \$28.2M SEIF fund balance in that account at the end of fiscal year 2014, DHR reports an additional \$3.6M of unused funding previously transferred from the SEIF.

DLS Analysis (Page 25): The BRFA of 2015 includes a transfer of \$6.0 million from the SEIF balance. After accounting for the proposed transfer, the SEIF balance at the close of fiscal 2015 would be \$33.1 million, as shown in Exhibit 9. The Administration has yet to indicate which portion of the fund balance from which the transfer will occur. As discussed, the current fiscal 2016 spending plan assumes the use of portions of the fiscal 2015 closing balance. Based on the fiscal 2016 revenue estimates and spending plans, the closing fiscal 2016 balance is estimated at \$31.3 million accounting for the transfer. The largest share of the fund balance is in the energy assistance account. However, energy assistance remains an important safety net program. If the transfer were to occur from a combination of the energy efficiency, renewable energy, and administration accounts, the estimated closing fiscal 2016 fund balance for these accounts would be approximately \$2.0 million. Fiscal 2016 spending plans could also be adjusted if the agency is interested in maintaining a larger fund balance. **DLS Services recommends language be added to the BRFA of 2015 to clarify that the transfer occur from accounts other than the energy assistance account, such as administration, energy efficiency, and renewable energy.**

MEA Response: NOT CONCUR. The DHR EUSP subaccount within the SEIF should not be exempt from the deficit reduction transfer proposed in the BRFA. The DHR EUSP subaccount constitutes over 78% of the pre-transfer SEIF fund balance projected at the end of fiscal year 2016. It would be neither reasonable nor prudent to exempt this subaccount given, as discussed in the DLS analysis and the above MEA response, the unplanned use and need for these funds.

DLS Analysis (Page 26): PSC required DCP to provide notice in writing within 10 days of the order whether it would accept or reject the conditions in the order. On June 9, 2014, DCP submitted written notification of its acceptance of the conditions. DCP has continued to submit documents, including the notice of FERC approval and the FERC approval order, as required under the conditions. Construction began in October 2014. As a result, MEA anticipates that funds would begin to be available in early calendar 2015. MEA has not yet developed plans for this funding. **MEA should comment on how it will determine the use of the funds, a planned timeline for making this determination, and when the funds will be appropriated.**

MEA Response: There is no planned timeline. The new administration is in the process of reviewing energy policy and will address mandated Cove Point contributions to the SEIF at the appropriate time.

DLS Analysis (Page 27): Delete the position for Governor’s Energy Advisor (PIN 002055) because the position is duplicative. A portion of the role of the Maryland Energy Administration (MEA) is to advise the Governor on a variety of energy matters. The director of MEA should serve as the energy advisor. This position has been vacant since June 2013.

MEA Response: CONCUR

DLS Analysis (Page 27): Delete a position created outside of the Rule of 100 because the grant funds have ended. One position (PIN 088568) was created in a Board of Public Works action in September 2012. The position was created outside of the Rule of 100 in fiscal 2013 because a federal grant (referred to as Advancing Energy Efficiency in Public Buildings) was being used to support the position. Positions created outside of the Rule of 100 are required to be abolished after the fund source is no longer available. The grant funds end in fiscal 2015, but the position is not abolished. The fiscal 2016 allowance funds the position from the Strategic Energy Investment Fund. The position is filled, but the individual could be moved into a vacant PIN within the agency.

MEA Response: CONCUR