Maryland Energy ADMINISTRATION
Powering Maryland's Future

Larry Hogan, ***Governor***
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Fiscal Year 2017 PAYGO Budget Testimony

Strategic Focus

The mission of the Maryland Energy Administration (MEA) is to promote affordable, secure, and safe energy while maintaining energy independence, sustainability, and reliability through innovative and effective policies, programs, technologies, and financing mechanisms. MEA's duties, as outlined in State Government Article §9-2003, run the full spectrum of State energy administration responsibilities:

- 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

MEA continued the program portfolio initiated in FY 2014 following the Regional Greenhouse Gas Initiative (RGGI) program changes which reinvigorated the market forces that drive the quarterly auctions. The programs run by MEA benefit all sectors of the Maryland economy by helping Maryland businesses and families save energy, reduce their electric bills, create local jobs, and enhance Maryland's energy security.

The following are some highlights of our FY 2015 accomplishments:

- In the RESIDENTIAL SECTOR, the Clean Energy Grant Program provides incentives for solar photovoltaic, solar water heating, geothermal heating and cooling technology installations. This program awarded over 2,900 residential grants, generating more than 8,600 kW of solar PV and more than 2,800 tons of geothermal capacity. Every $1 in MEA award funding leveraged approximately $16 of additional investment. In FY 2015, residential renewable energy installations that benefitted from the Clean Energy Grant Program resulted in the equivalent of more than 82 full-time jobs.

- Maryland's LOW-TO-MODERATE INCOME SECTOR benefits from the Clean Energy Communities Low-to-Moderate Income Program which provides energy efficiency funding 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 awards 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 and senior living facilities. In FY 2015, MEA made 56 awards to projects that have made improvements in more than 2,000 houses, apartments, and buildings across the State. These awards are estimated to result in energy savings of 1.6 million kWh and 15,000 MMBTU each year. As with all of MEA's energy programs, the resulting energy savings will continue to be incurred by the program beneficiary for multiple years, persisting for the life of the respective energy measures. Projects implemented through this program in FY 2015 have resulted in the equivalent of 37 full-time jobs.

- The Kathleen A. P. Mathias Program focuses investments on cost effective retrofits in Maryland's AGRICULTURE SECTOR. The overall goal of the program is to promote energy efficiency and renewable energy improvements on Maryland farms and in Maryland agricultural businesses. FY 2015 participants include poultry farms, greenhouses and dairy farms. MEA creates case studies and shares information on the projects, allowing farms and agriculture businesses to make informed decisions about pursuing similar upgrades. In FY 2015, MEA made 13 awards to help install 204 kW of solar PV capacity and resulted in anticipated continuing annual energy efficiency savings of 99,601 kWh and 9,204 MMBTU. The projects resulted in the approximate equivalent of 2 full-time jobs.

- The COMMERCIAL AND INDUSTRIAL (C&I) SECTOR uses approximately 60% of the state's electricity but has historically realized a much smaller proportion of electricity savings. For this reason, over the past two years MEA has launched programs to encourage deeper electricity savings involving multiple energy measures for the C&I sector. In FY 2015, MEA awarded 14 Commercial and Industrial Deep Retrofit awards with an anticipated continuing annual savings of 13 million kWh, corresponding to more than $1.4 million in avoided electricity costs each year moving forward. The work on the energy measures represents an estimated equivalence of 8 full time jobs. MEA also launched the Combined Heat and Power (CHP) program to expand the resiliency and energy efficiency benefits of this technology to Maryland hospitals and waste water treatment facilities. Once installed, the new installations will result in an additional 7 million kW of CHP capacity in Maryland.

- MEA reaches out to COUNTY/MUNICIPAL GOVERNMENTS IN THE PUBLIC SECTOR with the Maryland Smart Energy Communities Program (MSEC). MSEC encourages local jurisdictions to set energy policies related to renewable energy, energy efficiency and transportation. Participating MSEC communities receive a financial award that enables them to implement energy projects that help achieve the goals of their adopted energy policies. In this way, MSEC communities are able to reduce operating costs, improve environmental performance, and encourage better energy decisions among residents and local businesses. In FY 2015, MEA made awards to 28 communities bringing the total number of Maryland Smart Energy Communities to fifty-six.

- Maryland's TRANSPORTATION SECTOR is responsible for 32% of the greenhouse gases emitted in Maryland. This sector is served by a mix of alternative transportation programs designed to increase Maryland's fuel security through the use of alternative fuels and the reduction of fuel consumption. As a result, these programs decrease Maryland's dependence on petroleum from foreign imports and reduce emissions from greenhouse gases. FY 2015 programs resulted in an estimated continuing annual savings of 4.5 million gallons of petroleum and the equivalent of approximately 24 full time jobs.

MEA PAYGO Programs

While most of MEA's programs are focused towards specific sectors of Maryland's economy, our PAYGO programs are unique in that they serve a customer base with specialized needs. Each PAYGO program contributes to Maryland's energy goals by reducing the operating costs for state agencies and businesses through energy efficiency measures. These programs provide financing for energy efficiency projects that may not otherwise happen.

State Agency Loan Program (SALP)

The SALP program focused on State agencies and provides zero interest loans for energy conservation projects. All projects must generate enough energy savings to cover the loan payments. In FY 2015, MEA issued one SALP loan for $1 million. A second SALP application was received at the end of FY 2015 but did not close until this year. Historically, many loans have been linked with Energy Performance Contracts (EPC) developed by state agencies; others provide financing for standalone energy projects. MEA, in concert with DGS' state-wide effort to achieve 20% energy reductions in state agencies, continues to work on an initiative focused on small to medium sized buildings that have not been part of EPCs as a possible opportunity for future SALP loans. MEA has received two SALP loan requests in FY16 as a result of this effort.

Lawton Loan Program

The Jane E. Lawton Loan Program (Lawton) provides low-interest loans to help finance energy efficiency projects that reduce operating costs for businesses, nonprofits, and local government agencies. Lawton therefore operates across all economic sectors. Last year, MEA successfully closed three loans which, in aggregate, totaled more than $800,000. All three FY15 loans were made to manufacturers also participating in one of MEA's operating programs, the Next Generation Energy Efficiency Gains (NGEEG) initiative. The NGEEG program, as well as other operating budget programs, continues to be a feeder for the Lawton program.

Summary

MEA's PAYGO programs work in concert with our operating programs. Together these programs, as well as other initiatives and policies adopted by the State, have propelled Maryland from the 47th ranked State in 2006 to the 7th ranked State in the nation for achieving energy efficiency according the American Council for an Energy Efficient Economy (ACEEE) State Energy Efficiency Scorecard for 2015. MEA continues to engage on a wide range of energy efficiency, renewable energy, and transportation-related topics. The world of energy is fast paced and constantly changing and the MEA will continue to develop and deploy new strategies in order to advance Maryland's energy goals. The loan programs outlined above will continue to have a role in this portfolio.

Responses to DLS Recommendations/ Issues

DLS Analysis (Page 7): Of the $2.7 million in fiscal 2016 requests, only $200,000 for the first year of funding for the UMCP project has been encumbered as of this writing. If the two projects are split funded, as is currently expected, a portion of the fiscal 2017 funding (31.8% or $700,000) would be accounted for prior to the start of the fiscal year. This would provide $1.5 million for use for any other projects in fiscal 2017. **Given that fiscal 2016 requests exceed the appropriation, and in all but two years since fiscal 2009 MEA has encumbered more than $1.2 million in the SALP, MEA should discuss whether the current CIP for fiscal 2018 to 2021 would provide sufficient funding to meet program needs.**
MEA Response: The MEA PAYGO CIP is realigned each year to reflect actual balances and to estimate program requirements going forward. If it is determined that additional appropriation is required, MEA will work with the DBM to submit the requisite budget amendments.

DLS Analysis (Page 8): Chapters 348 and 349 of 2014, among other changes, authorized an expanded use of program funds in the JELLP to add credit enhancements. MEA issued final regulations, which were effective September 29, 2014, for the credit enhancement portion of the program. However, MEA has not begun to offer credit enhancements as part of the JELLP. MEA expects to develop an implementation plan in fiscal 2016. **MEA should describe the timeline for the implementation of the credit enhancement portion of the program. The Department of Legislative Services recommends committee narrative requesting that MEA provide information on the implementation plan, timeline for implementation, and credit enhancement offerings.**
MEA Response: Recognizing that credit enhancements would require sophisticated transactional knowledge and expertise, MEA collaborated with the OAG to hire an additional Assistant Attorney General with private practice experience. Shortly after MEA's new AAG started in the early fall of 2015, MEA's Lawton program manager left state service. MEA is actively working with the appointments office to backfill this important vacant position so that we may proceed with the development of the credit enhancement program. MEA will provide the requested report by October 15, 2016.

DLS Analysis (Page 12): Legislation proposed by Governor Hogan (SB 389 and HB 459) would divert up to $10 million of RGGI proceeds annually to the Environmental Trust Fund. This diversion occurs before the allocation of RGGI proceeds through the statutory allocation, reducing revenue available to each allocation. To maintain program funding in fiscal 2017, if this legislation is enacted, the use of fund balance would be required. If this legislation is enacted, unless program spending is reduced, little fund balance is likely to accumulate without substantial increases in revenue. **MEA should comment on how this legislation would impact the agency's plans to refund the remainder of ARRA funding in the SALP from the SEIF.**
MEA Response: MEA's plans for buying out remaining ARRA funds from the SALP have always been contingent on the availability of SEIF funding at the time. MEA will work with DBM in subsequent budget cycles to continue the replacement of ARRA with SEIF funding in the SALP.