

Department of Legislative Services
Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 875
Economic Matters

(Delegate D.E. Davis)

Finance

Electricity - Renewable Energy Portfolio Standard - Qualifying Biomass

This bill excludes black liquor, or any product derived from black liquor, from eligibility for inclusion in the State’s Renewable Energy Portfolio Standard (RPS) as a “Tier 1” resource. Other eligible sources are unchanged. A presently existing obligation or contract right may not be impaired in any way by the bill, which applies to all RPS compliance years beginning January 1, 2022, or later.

Fiscal Summary

State Effect: The Public Service Commission (PSC) can implement the bill with existing budgeted resources. The bill does not materially affect electricity prices, as discussed below.

Local Effect: Minimal.

Small Business Effect: Minimal.

Analysis

Current Law: “Qualifying biomass” (for RPS compliance) means a nonhazardous, organic material that is available on a renewable or recurring basis, and is waste material that is segregated from inorganic waste material and is derived from sources including:

- mill residue, except sawdust and wood shavings;
- precommercial soft wood thinning, slash, brush, or yard waste;
- a pallet or crate;

- agricultural and silvicultural sources, including tree crops, vineyard materials, grain, legumes, sugar, and other crop by-products or residue;
- gas produced from the anaerobic decomposition of animal waste or poultry waste; or
- a plant cultivated exclusively for the purpose of being used as a renewable source to produce electricity.

Qualifying biomass does not include old growth timber, unsegregated solid waste or postconsumer wastepaper, or invasive exotic plant species. An electricity supplier receives credit toward meeting RPS requirements for electricity derived from the biomass fraction of biomass co-fired with other fuels.

According to the recent comprehensive [report](#) prepared by the Power Plant Research Program in the Department of Natural Resources, Maryland is the only state in the region that includes black liquor as an eligible Tier 1 resource besides Pennsylvania, where black liquor facilities must be located in that state to be eligible. The sole in-state facility that had produced black liquor renewable energy credits (RECs) used for compliance with Maryland's RPS, Luke Mill in Allegany County, closed in 2019.

For additional information on Maryland's RPS, see the **Appendix – Renewable Energy Portfolio Standard**.

State/Local/Small Business Effect: PSC can implement the bill with existing budgeted resources. Black liquor has a relatively small and declining market share in the region and, therefore, it exerts minimal influence over REC and electricity prices paid by governments, businesses, and households. As other Tier 1 RECs are widely available, the bill is not anticipated to materially affect special fund revenue from alternative compliance payments.

Additional Information

Prior Introductions: SB 168 of 2020, a similar bill, received an unfavorable report from the Senate Finance Committee. Its cross file, HB 98, received a hearing from the House Economic Matters Committee, but no further action was taken.

Designated Cross File: SB 65 (Senator Kelley) - Finance.

Information Source(s): Public Service Commission; Department of Natural Resources; Department of Legislative Services

Fiscal Note History: First Reader - February 10, 2021
an/lgc Third Reader - March 19, 2021
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Analysis by: Stephen M. Ross

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix – Renewable Energy Portfolio Standard

Maryland’s Renewable Energy Portfolio Standard (RPS) was enacted in 2004 to facilitate a gradual transition to renewable sources of energy. There are specified eligible (“Tier 1” or “Tier 2”) sources as well as carve-outs for solar and offshore wind. Electric companies (utilities) and other electricity suppliers must submit renewable energy credits (RECs) equal to a percentage specified in statute each year or else pay an alternative compliance payment (ACP) equivalent to their shortfall. Historically, the requirements have been met almost entirely through RECs, with negligible reliance on ACPs. The Maryland Energy Administration must use ACPs to support new renewable energy sources.

Chapter 757 of 2019 significantly increased the percentage requirements, which now escalate over time to a minimum of 50% from Tier 1 sources, including 14.5% from solar, by 2030. In 2021, the requirements are 30.8% for Tier 1 sources, including at least 7.5% from solar. Tier 2, which has been extended several times, terminated after 2020.

Generally, a REC is a tradable commodity equal to one megawatt-hour of electricity generated or obtained from a renewable energy generation resource. In other words, a REC represents the “generation attributes” of renewable energy – the lack of carbon emissions, its renewable nature, *etc.* A REC has a three-year life during which it may be transferred, sold, or redeemed. REC generators and electricity suppliers are allowed to trade RECs using a Public Service Commission (PSC) approved system known as the Generation Attributes Tracking System, a trading platform designed and operated by PJM Environmental Information Services, Inc. that tracks the ownership and trading of RECs.

Tier 1 sources include wind (onshore and offshore); qualifying biomass; methane from anaerobic decomposition of organic materials in a landfill or wastewater treatment plant; geothermal; ocean, including energy from waves, tides, currents, and thermal differences; a fuel cell that produces electricity from specified sources; a small hydroelectric plant of less than 30 megawatts; poultry litter-to-energy; waste-to-energy; refuse-derived fuel; and thermal energy from a thermal biomass system. Eligible solar sources include photovoltaic cells and residential solar water-heating systems commissioned in fiscal 2012 or later. Tier 2, when it was in effect, eventually included only large hydroelectric power plants.

RPS Compliance

According to the most recent RPS compliance [report](#) on PSC’s website, electricity suppliers retired 11.4 million RECs at a cost of \$134.5 million in 2019, as average REC prices rose from their 2018 levels, as shown in **Exhibit 1**.

Exhibit 1
RPS Compliance Costs and REC Prices
2015-2019

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Compliance Costs (\$ Millions)					
Tier 1 Nonsolar	\$85.1	\$88.2	\$50.0	\$56.4	\$79.3
Tier 1 Solar	39.1	45.6	21.3	27.4	55.2
Tier 2	<u>2.6</u>	<u>1.4</u>	<u>0.7</u>	<u>1.0</u>	<u>.06</u>
Total	\$126.7	\$135.2	\$72.0	\$84.8	\$134.5
Average REC Price (\$)					
Tier 1 Nonsolar	\$13.87	\$12.22	\$7.14	\$6.54	\$7.77
Tier 1 Solar	\$130.39	\$110.63	\$38.18	\$31.91	\$47.26
Tier 2	\$1.71	\$0.96	\$0.47	\$0.66	\$1.05

REC: renewable energy credit

RPS: Renewable Energy Portfolio Standard

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

Source: Public Service Commission

In 2019, wind (43%), black liquor (23%), small hydroelectric (11%), municipal solid waste (11%), and wood and waste solids (7%) were the primary energy sources used for Tier 1 RPS compliance. Maryland facilities generated 4.7 million RECs in 2019: approximately 2.5 million Tier 1 RECs and 2.2 million Tier 2 RECs. Many RECs can be used for compliance in both Maryland and other surrounding states, although there are geographic and energy source restrictions.

Pursuant to Chapter 393 of 2017, the Power Plant Research Program in the Department of Natural Resources has released its final report on a comprehensive study of the RPS. The report contains historical data but also looks at future scenarios. The report can be found [here](#) or on the department's website.