

Draft Recommendations Under Review by the Mitigation Working Group

August 14, 2024

1. Maryland Must Adopt a Climate Investment Strategy

Maryland is not on track to meet its legal requirement to reduce greenhouse gas emissions by 60% by 2031 and has little chance of meeting this goal without a permanent source of revenue targeted to this goal. Therefore, the state must immediately implement a strategy to make targeted, equity-centered climate investments that decrease emissions and reduce energy costs for businesses and families.

Recommendation: The General Assembly should pass legislation in 2025 to authorize the development of at least three climate investment mechanisms.

A. Authorize a Cap-and-Invest Program

Maryland should follow the lead of California, New York, and Washington in developing an economy-wide cap-and-invest program to build on Maryland's successful cap-and-invest program for fossil fuel power plants. As described in [Maryland's Climate Pathway Report](#) and [Maryland's Climate Pollution Reduction Plan](#), the state has no path to achieve its climate goals without cap-and-invest or a similar policy that puts a regulatory cap on emissions from major polluters and invests approximately \$1 billion annually in priority decarbonization projects. Maryland's Climate Pollution Reduction Plan shows that without cap-and-invest, the state will fall short of its emissions reduction requirements by approximately 3.5 million tons of carbon dioxide equivalent (MMTCO_{2e}) in 2031 and 15.6 MMTCO_{2e} in 2045. In addition to not complying with state law, Maryland will fall further behind other climate-leading states if it fails to implement this increasingly utilized policy.

The General Assembly should authorize MDE to implement an economy-wide cap-and-invest program modeled after Maryland's successful cap-and-invest program for fossil fuel power plants. For over a decade, fossil fuel power plants in Maryland and other states participating in the Regional Greenhouse Gas Initiative (RGGI) have performed under an emissions cap and sold emissions allowances at auctions. Maryland received approximately \$1.3 billion in proceeds from the sale of allowances, including \$214 million in FY24 alone, while power plant emissions plummeted due to the program's success. Legislation should require MDE to expand this successful model to cover additional major sources of greenhouse gas emissions.

The General Assembly should direct revenues from the program toward the following strategic investments while applying a Justice40 approach across these investments:

- *Home Energy Efficiency and Electrification (20%)* - Providing up to \$14,000 per household to help low-, moderate-, and middle-income families replace fuel-burning equipment with zero-emission electric alternatives such as heat pumps, heat pump water heaters, and induction cooktops.
- *Electric Vehicles (20%)* - Providing up to \$7,500 per household to help low-, moderate-, and middle-income families replace fuel-burning vehicles with zero-emission electric vehicles (EVs).
- *Commercial, Multifamily, and Institutional Buildings (20%)* - Providing grants and subsidized loans to reduce the cost of energy efficiency and electrification projects in commercial, multifamily, institutional, and other types of buildings including those covered by the Building Energy Performance Standards.
- *Infrastructure (20%)* - Providing grants and subsidized loans for projects that reduce GHG emissions from industrial facilities, landfills, and wastewater treatment plants, and constructing new infrastructure including EV charging stations, transit lines, bike lanes, etc.
- *Natural and Working Lands (15%)* - Supporting tree plantings, forest management, wetland management, soil management, and other projects that store carbon and help the state achieve its net-zero emissions goals.
- *Program Administration (5%)* - Funding for MDE, MEA, MDOT, and other relevant agencies to cover the costs of administering the program.

MDE should use its existing authority to adopt a reporting rule in 2025 to require major polluters to begin reporting data in 2026. Data would be used to establish the baseline performance of major polluters, as described in [Regulatory Options for an Enforceable Emissions Cap-and-Invest Program in Maryland](#) and [Cap-and-Invest for Maryland: A Primer](#). Legislation in 2025 should require MDE to adopt regulations in 2026 to begin enforcing a regulatory cap on emissions in 2027. Proceeds from the program would be available for strategic climate investments beginning no later than 2028.

B. Authorize a Fossil Fuel Transport Fee and Mitigation Fund

The General Assembly should pass the Fossil Fuel Transport Fee and Mitigation Fund, introduced as HB 1008 in 2024. The bill would allow the state to collect a small fee from major railroad and pipeline companies that transport coal and natural gas through Maryland, similar to a small fee currently paid by carriers of petroleum products. The main benefit of the bill is that most of the revenue would be paid by the companies around the world that import the coal and natural gas that pass through and are exported from fuel terminals in Maryland. Marylanders get

all of the benefits of the fee and pay little of the financial cost. An average Maryland household that still uses natural gas for heating would see an average monthly bill impact of around \$2, assuming all costs are passed on to consumers. In exchange for a \$2 bill impact, Marylanders would benefit from approximately \$300 million annually for investments that improve health outcomes and help everyone who has not yet transitioned from fossil fuels to clean energy. The legislation will also enable the Maryland Clean Energy Center to leverage a portion of these funds to issue low-interest bonds for additional near-term climate investments.

The bill should make the fee effective starting July 1, 2025, and require revenue collected in FY26 to be programmed starting in FY27. Revenue would go to the Fossil Fuel Mitigation Fund and be directed to the following investments with a Justice40 application to these investments:

- Home Energy Efficiency and Electrification (25%)
- Commercial, Multifamily, and Institutional Buildings (25%)
- Electric Vehicles, Charging Equipment, and Electric School Buses (23%)
- Mass Transit (20%)
- Asthma Treatment for Communities Affected by Coal Dust (2%)
- Program Administration (5%)

C. Authorize the RENEW Act

The General Assembly should pass the Responding to Emergency Needs From Extreme Weather (RENEW) Act, introduced as HB 1438/SB 958 in 2024. The RENEW Act would require the largest international fossil fuel companies to pay a one-time fee for their historical emissions. Because the law would likely be challenged in court by the fossil fuel industry, the state should not expect to receive revenue from this action in time to implement emissions reduction programs before 2031. The state should instead plan to use future revenues from this action to pay for the unknown but surely enormous cost of adapting and becoming more resilient to the impacts of climate change.

2. Transition from One-Way Air Conditioners to Two-Way Heat Pumps

The General Assembly should facilitate the transition from one-way air conditioners (ACs) to two-way heat pumps (HPs). This is an important emissions reduction and consumer production measure.

Emissions reductions - HPs are more efficient at cooling than ACs and more efficient at heating

than fuel-burning systems, resulting in emissions reductions throughout the year. Getting more HPs installed at the point of AC replacement would help the state accelerate emissions reductions.

Consumer protection - HPs replace ACs, so when consumers install new ACs and then install HPs when their boilers or furnaces fail, the new ACs are replaced and the residual value is lost. MDE's forthcoming Zero-Emission Heating Equipment Standards (ZEHES) will require the installation of zero-emission equipment like HPs when fuel-burning heating equipment like boilers and furnaces need to be replaced. Many consumers who pay to install new ACs could find themselves needing to pay to replace their new ACs with HPs as soon as their heating systems fail. Legislation could prevent many consumers from double paying for systems that provide cooling.

The General Assembly should require heating and cooling contractors to provide their customers with cost estimates for HP installation when customers request cost estimates for AC installation. The cost estimate for an HP should be compared with the cost of an AC and a replacement heating system. Customers who choose to proceed with AC installation must sign an affidavit saying they received estimates to compare the costs of AC and HP, their contractor explained the differences between AC and HP, and they are aware that the AC may need to be replaced with an HP when their heating system needs to be replaced. Contractors must submit their customers' signed affidavits and cost estimates to the state, which will use the documents to track and report on the success of the program.

3. Shift Funding to Limited-Income Electrification Programs

Maryland's RGGI proceeds have increased in recent years, rising from \$140 million in FY23 to \$214 million in FY24, a \$74 million increase in one year. Meanwhile, the funding provided to the Department of Housing and Community Development (DHCD) is not sufficient to satisfy the demand for new heating and cooling systems from limited-income families. As a result, many families struggle to maintain safe living conditions in the cold of the winter and heat of the summer. Maryland has the opportunity to help more limited-income families replace old AC and heating systems with new heat pumps, which would reduce emissions, lower energy costs, and improve the quality of life for some of the most vulnerable members of our community.

The General Assembly should direct \$10 million annually from RGGI proceeds to a new fund that DHCD would use to replace old heating and cooling systems with heat pumps and replace old water heaters with heat pump water heaters. Legislation in 2025 should direct revenue to the new fund as quickly as possible so that DHCD can start helping more limited-income families replace old heating and cooling systems as early as FY26.

4. The State Should Take Action to Increase the Pace of Solar Power Development

A through H below were recommended by the MCCC in 2022 but have not been enacted.

A. The General Assembly should require each county to designate renewable energy development to sites adequate to implement at least their projected (population-based) share of the state's legislated solar energy targets. County plans should designate sites for utility solar according to zoning. The county should take into account soil classification with a priority on Class 3 soils or lower. County planning processes should include a stakeholder engagement process for affected parties, including agriculture.

B. The legislature should act to support the added cost of developing low- and moderate-income community solar projects, especially those in preferred locations (brownfields, rooftops, parking lots, etc.) through improved financing incentives.

C. The General Assembly should provide additional incentives for solar development on "preferred sites" including residential and commercial rooftops, parking lots, abandoned sites, grayfields, and brownfields.

i) Substantial (e.g., 25% of project cost) refundable state tax credit for new solar arrays on these sites.

ii) Increasing the cost of Solar Alternate Capacity Payments beyond the low and declining levels set by 2021 SB65, to increase SREC value. There are many examples of "upfront" incentives from other states that could be drawn on.

D. MEA should work toward developing a program/policy in coordination with the PSC and PJM to link interconnection service agreement timelines and incentives to ensure that developers can access funding in a timely manner.

E. The State should incorporate project "readiness" or maturity into solar project siting, and permitting (similar to what PJM is doing with "first-ready, first-serve").

F. The State should require long-term contracts for renewable energy to support a portion of the Standard Offer Service in the state.

G. The Building Codes Administration should adopt solar-related provisions in the draft 2024 International Energy Conservation Code.

H. The General Assembly should consider revisions to the RPS to encourage more solar through SRECs and more ambitious carveouts. SRECs should incentivize projects on developed and brownfield sites and limit use for projects on sensitive lands.

I through K below are new or modified recommendations.

I. The Power Plant Research Program (PPRP) should report annually in their State Agency Reports, the amount of new solar production (by project) in the previous year and report on opportunities for solar development on rooftops, parking lots, disturbed land, and less productive farmland. *(As recommended by the MCCC in 2022 but replacing MEA with PPRP as the responsible agency)*

J. New construction – both residential and commercial – codes should be updated to require electrical wiring and panels that are both solar- and EV-ready. *(New)*

K. Any changes to the process for developing solar energy projects should result in faster and more efficient issuance of permits. *(New)*