

OPPOSE
Economic Matters Committee
3/4/2021

House Bill 708: Comprehensive Climate Solutions

Baltimore Gas and Electric Company (BGE) respectfully opposes *House Bill 708: Comprehensive Climate Solutions*. This legislation would establish a Maryland economy-wide decarbonization goal of reaching net-zero greenhouse gas emissions (GHG) by 2045. House Bill 708, entitled “Comprehensive Climate Solutions” is anything but comprehensive. Of significant concern is that it prescriptively requires utilities to establish transition plans intended to support a very narrow and limited set of tools (i.e., decarbonization of buildings) under consideration by this General Assembly to support decarbonization.

Because of its undue focus on building-decarbonization, the proposed legislation fails to address 87% of Maryland’s GHG emissions. Requiring utilities to completely overhaul their existing regulatory models to focus on the building sector – which accounts for **only 13% of economy-wide emissions**¹ – is not sound public policy. See Figure 1.

Further, this bill presupposes one pathway for achieving deep decarbonization, leaving multiple other pathways, which may yield more beneficial outcomes for Maryland residents, out of consideration. We believe that House Bill 708 would place an extreme and undue burden on Maryland utility customers and Maryland’s economy, and that the outcome at best would result in a very small gain. Put simply, there are far more effective and cost-efficient means of decarbonizing Maryland’s economy.

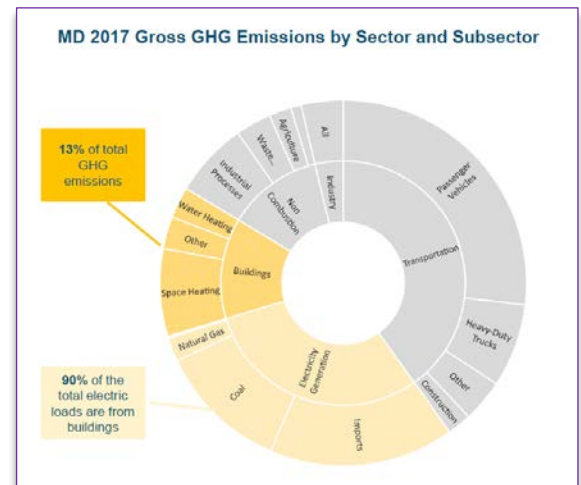


Figure 1

Commitment to Climate

BGE is committed to electrification and decarbonization. The company announced our *Path to Clean*: a commitment to cut our own operational emissions by at least 50% by 2030 and achieve net-zero operations-driven emissions by 2050, in line with the ambitions of the nation. To achieve these goals, BGE will implement a series of initiatives designed to modernize our energy delivery systems; reduce energy use in our offices and buildings; increase our use of renewable-powered energy; and electrify our company’s vehicle fleet. Within this very legislative session, BGE has

¹ Final Report, Maryland Building Decarbonization Study at Page 5 (October 20, 2021).

demonstrated support for other key aspects of the suite of policies aimed at reducing emissions in the transportation sector, which makes up about 45% of Maryland's greenhouse gas emissions. In addition, BGE's Empower Maryland programs have been highly successful in lowering energy usage and GHG emissions for residential and commercial customers, generating over 5 million MWh of energy savings valued at approximately \$6 billion in lifecycle customer bill savings, and reducing over 4 million metric tons of GHG emissions. BGE's STRIDE (gas delivery modernization) program has also supported greenhouse gas reductions. Since 2014, pipe replacements have reduced the emission of about 55,000 metric tons of greenhouse gas. When BGE's STRIDE plan is complete, GHG emissions will have been reduced by 210,000 metric tons per year compared to 2013.

Undue Focus on Building Sector Emissions

House Bill 708, which is before this Committee, is only one of several decarbonization bills, which in aggregate amount to a comprehensive climate legislative package under consideration this session. Another bill in the legislative package, House Bill 831 (which deals with decarbonization of the building sector in Maryland), would represent the most significant transformation of the utility industry in a generation—for the very limited benefit of decarbonizing a sector that only accounts for a relatively small percentage of Maryland's GHG emissions (*even less than 13%, given that the legislation excludes fossil fuels for cooking purposes and the building emissions standards only apply to commercial and residential structures above 25,000 sq ft*), while placing significant costs on customers and depressing economic recovery and development in Maryland. While the Economic Matters Committee generally hears utility regulation legislation, House Bill 831 was assigned to the Environment & Transportation Committee. Nevertheless, it is critical that this Committee understand the context of the legislation currently under review, as there will be significant impacts to both electric and gas system customers resulting from the policies contemplated in the building-related legislation. Accordingly, we provide the substance of BGE's opposition testimony on House Bill 831 below.

House Bill 831 seeks to dramatically alter Maryland's established greenhouse gas emission goals in the Commercial and Residential building sector. This proposed legislation requires the Maryland Department of Environment (MDE) to establish building emissions standards for large commercial or multifamily residential Maryland buildings. House Bill 831 would further require the Department of Labor to adopt building performance standards by January 1, 2023, that require new residential and commercial buildings to meet all water and space heating demand without the use of fossil fuels, unless certain exceptions can be demonstrated. The bill would also require MDE to establish the Building Energy Transition Implementation Task Force to study and make recommendations regarding the development of

complementary programs, policies, and incentives aimed at reducing GHG emissions from the building sector that does not include key stakeholders in the process.

As an electric and gas delivery company, BGE's key responsibilities are to deliver energy, regardless of whether it is electricity or gas, in a manner that is safe, reliable, and affordable. In written and oral testimony before the House Environment and Transportation Committees on February 25, 2022, BGE expressed concerns about House Bill 831 for the following reasons:

1. The mandate for an all-electric building code requirement set forth in the bill presents: a) significant challenges from an electric system planning and reliability perspective; b) increased costs to customers; c) reduced optionality for customers; and d) impaired economic recovery and development in the state.
2. The Building Energy Transition Implementation Task Force does not include the participation and input of the very entities (electric and gas companies) that need to plan for and construct the infrastructure necessary to accommodate such a transition in energy usage.

Necessary Electric Infrastructure Investments

The BGE territory serves 54% of Maryland's residential gas customers and 55% of commercial and industrial gas customers. Collectively, these customers represent nearly half of statewide natural gas use in Maryland's buildings and industry. Of this natural gas use, approximately 25% is for harder to electrify large commercial and industrial users.

BGE is supportive of fully informed efforts to decarbonize the building stock in our service territory. Such a meaningful shift to the state's economy, as the one contemplated in House Bill 831 and HB 708, however, requires time for planning and implementation. Electrification will drive a requirement for significant incremental investments in our electric infrastructure to serve the resulting load reliably and with resilience in mind. While the exact scope of the required investments cannot be fully modeled without detailed knowledge of where growth will occur on the system, directional analysis that we have conducted indicates the need for major infrastructure components, including in the very near-term multiple substations and many new feeder lines.

Planning and construction of this new infrastructure will require significant time to: (1) analyze the detailed capacity needs on the system; (2) find and acquire land for new infrastructure in areas acceptable to our customers; (3) plan and design capital projects; (4) obtain the required permits and approvals; and (5) construct the

required substations and feeders. In addition, there will be the need to ensure the availability of the workforce necessary to construct this infrastructure. This process is further complicated by escalating supply chain challenges that are increasing the lead time for critical infrastructure equipment. For example, lead times for distribution transformers have increased fivefold from their typical timeframes.

BGE expressed concerns that the implementation timelines within House Bill 831 do not provide adequate time to prepare for load growth on the electric system and to construct the infrastructure needed to ensure a safe, reliable, and resilient grid. In addition, House Bill 831 does not provide the tools necessary to expedite the planning, siting, permitting, and construction of such electric system infrastructure and limits optionality for new technological advancements that may help to lower decarbonization costs over time and/or smooth end-user disruption during the transition. Without the required time and tools, it is possible that the grid will be unable to serve new load during times of peak energy usage. The bill also does not address and acknowledge the critical importance of energy diversity to grid resiliency and security, so that as a state we do not effectively “put all of our eggs into one basket”, thus increasing our risk to disruptive events such as severe storms, cyber-attacks, and other threats to our essential energy supply.

Customer Costs, Optionality, and Equity Concerns

BGE also noted in its testimony that House Bill 831 will drive costs higher for BGE’s existing customers. According to modeling of the BGE territory, residential gas customers can expect to pay \$10,000 or more per household for increased heating costs and retrofits if this legislation is enacted. In aggregate, this shift will cost our residential and commercial gas customers no less than \$2.8 billion. These projections do not include the electric infrastructure costs described above to ready the system for load growth. Even the Maryland Climate Commission’s report acknowledges these costs will be significant. The combined impact will be billions of dollars for BGE’s customers alone, and even higher statewide. The dramatic shift in energy usage will also create equity and affordability issues—as the usage of the natural gas delivery system declines, the existing customers who remain gas users— because they cannot afford to electrify— will pay more. Rather than mandating an outcome for Maryland residents, adopting an incentive-based program (such as EMPOWER) could help Maryland achieve its decarbonization goals without arbitrarily removing residents’ options.

Economic Development Impact

No state in the country has adopted a statewide building code that prohibits the use of natural gas for space and water heating. While states like California, New York, and Massachusetts are considering decarbonization policies, all are more measured in the

timelines for implementing building decarbonization efforts. Even legislation proposed by smaller jurisdictions better accounts for the challenges, feasibility, necessary exceptions, and economic impacts inherent in such a transformative policy shift. Neighboring jurisdictions, such as Virginia and Pennsylvania, are in the process of enacting policies that would ban the very type of action that House Bill 831 seeks to implement. As such, this proposal would put Maryland at a competitive disadvantage with other states, dampening the job growth potential of this region.

Elimination of Multiple Pathways to Reach Deep Decarbonization

BGE supports electrification and decarbonization. However, for the reasons that the company opposed House Bill 831, it opposes HB 708. This legislation forces a rapid and seismic shift in the state's economy without fully evaluating the impacts of such a rapid change on all energy customers in Maryland. It also proposes the nation's most aggressive electrification and decarbonization targets without leveraging the collective wisdom of diverse stakeholders to evaluate all options to achieve the desired reductions, to understand the likely consequences of those options on our customers and communities and on the state's economy, and to ensure the continued delivery of safe, reliable, and affordable energy delivery service. During the HB 831 building, the bill sponsor indicated that the legislation is modeled after one specific pathway identified by the State's consultant during the Climate Commission's process—specifically, the Mitigation Work Group's Policy Scenario.

Even under this scenario, which is purportedly one of the lesser cost pathways, roughly \$1B of annual incremental costs will be anticipated.² Further, under this scenario, rather than being summer peaking, Maryland's electricity system will become winter peaking. Converting from a Summer to Winter peaking will require planning and investments so as to enhance and increase the capacity of the grid that will serve the winter load. This includes investments required in reliability equipment where increased grid capacity is required, and as noted previously, this will take time to implement. Finally, gas demand under this scenario is expected to decline by 75% by 2045, resulting in higher delivery costs for existing gas customers with prices tripling from current levels.

There is value to ensuring that any transition is thoughtful, equitable, affordable, and achievable. Leveraging an integrated energy delivery system – one that includes gas and electric delivery infrastructure- for the purposes of planning and managing the transition will be key. BGE is committed to helping the state achieve its decarbonization goals. However, the utility transition plan requirements described in Section 5 of House Bill 708 are overly prescriptive. There are multiple pathways to achieve deep decarbonization in Maryland. The proposed legislation presupposes a devaluation of the gas delivery system installed across BGE's service territory,

² Final Report, Maryland Building Decarbonization Study at 53 (October 20, 2021).

thereby removing the potential for the development and integration of technologies and clean alternative fuels such as hydrogen and renewable natural gas, which could flow across this delivery system and become part of the set of tools utilized to help the state achieve its decarbonization goals. Finally, the resiliency and security aspects that an integrated energy delivery system confers by providing access to diverse sources of energy should not be ignored.

For these reasons, BGE opposes House Bill 708 and respectfully requests an unfavorable committee report from the Economic Matters Committee.