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PUBLIC SERVICE COMMISSION

March 4, 2022

Chair C.T. Wilson
Economic Matters Committee
House Office Building, Room 231
Annapolis, Maryland 21401

RE: INFORMATION – HB 708 – Comprehensive Climate Solutions

Dear Chair Wilson and Committee Members:

House Bill 708 envisions broad modifications across the state to address climate change, some of which impact the utility industry and ratepayers. The Maryland Public Service Commission currently implements the core legislative mandates contained in the Public Utilities Article (PUA), in its supervision and regulation of all public service companies. These include "ensuring their operation in the interest of the public" and "promoting adequate, economical, and efficient delivery of utility services in the State without unjust discrimination." **Several proposals in HB 708 create potential conflicts for the Commission in its oversight of public service companies**. The Commission therefore offers observations and suggested amendments for the Committee's consideration.

First, HB 708 would add a new EmPOWER Maryland program cycle covering 2024-2026 and gradually increase the savings goal from 2% to 2.75%. HB 708 would require, starting in 2024, that the programs promote fuel switching for heating systems that use fossil fuels to electric heat pumps and forbids EmPOWER funds to provide financial assistance for measures that directly consume fossil fuels. The electricity savings goals prescribed in HB 708 combined with the new mandates for electrification will cause implementation issues for EmPOWER. Energy efficiency promotes the reduction of electricity usage while electrification promotes the increase of electricity usage. Promoting conflicting policy goals may prove difficult.[1] While the policies can be considered in tandem, the goals for EmPOWER need to be structured differently

[1] The *2030 Greenhouse Gas Reduction Act Plan* (Feb. 19, 2021) issued by the Maryland Department of the Environment projects that, as a result of the electrification of the building and transportation sectors, that electricity demand in Maryland will begin to increase in 2025 and will reach approximately 80 terawatts in 2050, which is an increase of about one-third over current demand. *2030 GGRAP*, p. 43. The demand reduction goals in neither the Legislation nor the current EmPOWER Maryland statute recognize this projected increase in State electricity demand.

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to eliminate the conflict of simultaneously reducing and increasing demand. **There is an active work group that is discussing many of the issues outlined in HB 708, including a revised goal structure, beneficial electrification, and appropriate environmental benefits**. The work group will file a report with the Commission by April 15, 2022 and Commission will file final recommendations with the Maryland General Assembly by July 1, 2022. <u>The Commission recommends that Section 9 of Senate Bill 528 be included in HB 708 to allow the Commission to assist the General Assembly by recommending savings goals for EmPOWER that support state policies</u>.

Additionally, the Commission is concerned with the ability of EmPOWER programs to remain cost-effective in the future – and the financial impact on ratepayers, given the Commission's existing legislative mandate to ensure that utility rates are economical. Historically, the majority of energy savings under EmPOWER came from the replacement of inefficient lighting (*e.g.*, incandescent lamps) with energy efficient alternatives (*e.g.*, LEDs). EmPOWER and other energy efficiency programs across the country have changed customer lighting preferences and resulted in changes to federal lighting standards. As such, it is becoming more challenging to keep the costs of EmPOWER from increasing and the cost-effectiveness of the programs from decreasing. If the General Assembly intends to preserve the cost-effectiveness of EmPOWER, the utilities will be required to invest in much more expensive energy efficiency measures, which will impact the rates customers will pay on their utility bills. This year, the average electricity customer in Maryland who uses 1,000 kWh per month can expect to pay between $6.19 and $8.42 per month for their EmPOWER surcharge. **This surcharge will need to increase to accommodate changes necessary to meet the more aggressive goals in HB 708, while also ensuring that the programs remain cost-effective. The exact rate impact is unknown without further study.**

Second, HB 708 proposes to revise the State's greenhouse gas goal from a 40 percent reduction in GHG emissions relative to 2006 levels by 2030 to a 60 percent reduction in GHG emissions relative to 2006 levels by 2032, and net-zero statewide GHG emissions by 2045. To achieve these goals, the electric and natural gas companies overseen by the Commission will likely be impacted significantly. Section 5 of HB 708 requires the Commission to establish a process to review utility plans to achieve the goals outlined in the bill. While the Commission supports the development of utility plans to meet the State's GHG goals, Section 5 is overly prescriptive and does not allow for the consideration of different pathways forward and their corresponding impacts to ratepayers. Furthermore, this section and its focus on a plan to drive down GHG emissions in the building sector excludes significant improvements that the State could achieve in other sectors, such as transportation.

For example, the proposed legislation directs the Commission to establish a process for gas companies to develop transition plans such that the natural gas industry will lose 50 to 100 percent of their load by 2045 and that their customer base will shrink. Typically, it is assumed that the utilities will be permitted to recover their prudently incurred costs over the useful life of an asset. If it is assumed that certain utilities will have fewer or no customers by 2045, then the utilities will need to accelerate cost recovery for their assets, which will, in turn, increase the amount of revenue utilities will need to collect from customers each year through rate increases. The Commission's Accounting Division provides the following estimates to demonstrate the potential short-term effects of seeking to eliminate gas usage by 2045. The example estimates the revenue impact of reducing the remaining life of all depreciable gas assets to 13 years assuming the State took an aggressive approach to eliminating gas utilities' load in the State. Table 1 shows an estimate for the three of the largest gas utilities in Maryland: BGE, Columbia Gas, and Washington Gas. These values are scenario-specific and will be heavily dependent upon the path the State takes to pursue decarbonization and how quickly the natural gas utilities' loads will drop due to these decisions.

Table 1: Estimated Annual Revenue Impact of Reducing Remaining Life for All Gas Depreciable Assets to 13 Years[2]

	BGE	Columbia	Washington Gas
Estimated Increase to Revenues	$106.4 million	$12.3 million	$21.7 million

Revenue impacts of this magnitude could cause a rapid death spiral with the remaining customers bearing much higher costs as other customers leave gas service. The Commission is concerned with excessive rate impacts to ratepayers and believes that utility plans should prioritize solutions that minimize the rate impact while maintaining safe, reliable, and affordable service. **Accordingly, the Commission recommends the legislature consider a stakeholder process like the Task Force outlined in Senate Bill 528 and House Bill 831 as an appropriate way to create utility plans to meet the State's greenhouse gas goals.**

The Commission appreciates the opportunity to provide information on HB 708. The Commission strives to be a part of the climate change solution while meeting its statutory mandates to the public service companies it regulates and the ratepayers those companies serve. Ensuring ratepayers do not pay more than their fair share for GHG emissions reductions while ensuring safe, reliable, and affordable service is a priority as we move forward with climate change mitigation policies. Please contact Lisa Smith, Director of Legislative Affairs, at (410) 336-6288 if you have any questions.

Sincerely,

Jason M. Stanek
Chairman

[2] The revenues noted in the table were derived based on information from each company's latest depreciation case. The revenue impacts shown in the table relate only to the reduction in the Service Period for gas assets, meaning it does not consider the ongoing costs necessary to operate the system from ongoing O&M or maintenance of existing facilities. Additionally, the table does not factor in additional costs related to net salvage.