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BILL NO.: House Bill 708
Comprehensive Climate Solutions

COMMITTEE: Economic Matters

HEARING DATE: March 4, 2022

SPONSORS: Delegate Barve
Delegate Stein

POSITION: Support

The Office of People’s Counsel strongly supports House Bill 708. The bill will benefit residential utility customers by accelerating the State’s move to electrify its buildings and requiring the State’s utilities to transition away from natural gas. The bill will reduce costs for customers and lower the risk that customers and taxpayers will be asked or required to pay for potentially billions of dollars in stranded gas utility infrastructure costs. The bill also makes positive changes to the State’s EmPOWER program, consistent with the benefits of building electrification for residential utility customers.

Background

HB 708 requires the State to reduce statewide greenhouse gas emissions 60% from 2006 levels by 2032 and to achieve net zero emissions by 2045. The bill includes numerous measures covering topics ranging from landfill methane emissions, green jobs and retraining, environmental justice, and low-income goals.

OPC’s comments below focus on two aspects of HB 708. First, HB 708 requires the Public Service Commission to establish processes for gas and electric utilities to file transition plans for achieving the bill’s greenhouse gas emissions reduction requirements.

The bill establishes criteria for those plans, and it directs the Commission to modify or reject a utility’s plan based on whether it meets the criteria. Second, the bill changes the State’s EmPOWER program to remove incentives for fossil fuels and to create incentives for beneficial electrification.

Comments

1. HB 708’s requirements for electric and gas utility transition planning will protect and benefit residential utility customers as the State acts to meet the challenges of climate change.

Technical analyses show that electrification is the lowest cost means for meeting the State’s climate policies for residential customers. This is the finding in the report of the Mitigation Working Group of the Maryland Commission on Climate Change: “Residential customers can save costs by electrifying all building end uses compared to using gas.” The MWG’s conclusion is supported by analyses performed by our office, and it is widely supported by analyses performed in other States.

General Assembly action is needed now to guide how the State proceeds with electrification. In particular, the Legislature needs to direct how the Public Service Commission and gas utilities address the inevitable challenges of a shrinking customer base and the significant reductions in the volume of gas moving through the pipes. Without legislative direction and comprehensive transition planning, the State will need to confront the challenge of many billions of dollars in stranded gas infrastructure costs. Those costs will be paid by someone—customers, taxpayers, or shareholders.

Natural gas utility rates already are rising and will continue to rise for decades because gas utilities are accelerating their infrastructure investments at an unprecedented rate. Because neither gas nor electric utilities are required to share their long-term plans, we don’t know the full extent of gas utility investment plans. We have a glimpse of what their plans are from utility filings with the Public Service Commission for replacing *existing* infrastructure only. The State’s three largest utilities’ plans show investments of approximately \$4.8 billion over the next 20 years on replacement infrastructure.

Gas utilities plan to recover these billions of dollars in investments from customers over many decades, through the end of the century. Figure 1 below illustrates how the costs of the utilities’ plans on file with the PSC (for replacement infrastructure only, and not even all replacement infrastructure) would be recovered from customers. While the replacement projects themselves will be complete by 2043 (for BGE), the costs are planned to be recovered in customers’ rates through 2099.

Figure 1
Annual Revenue Requirements Under Replacement
Infrastructure Plans of 3 Largest Maryland Gas Utilities

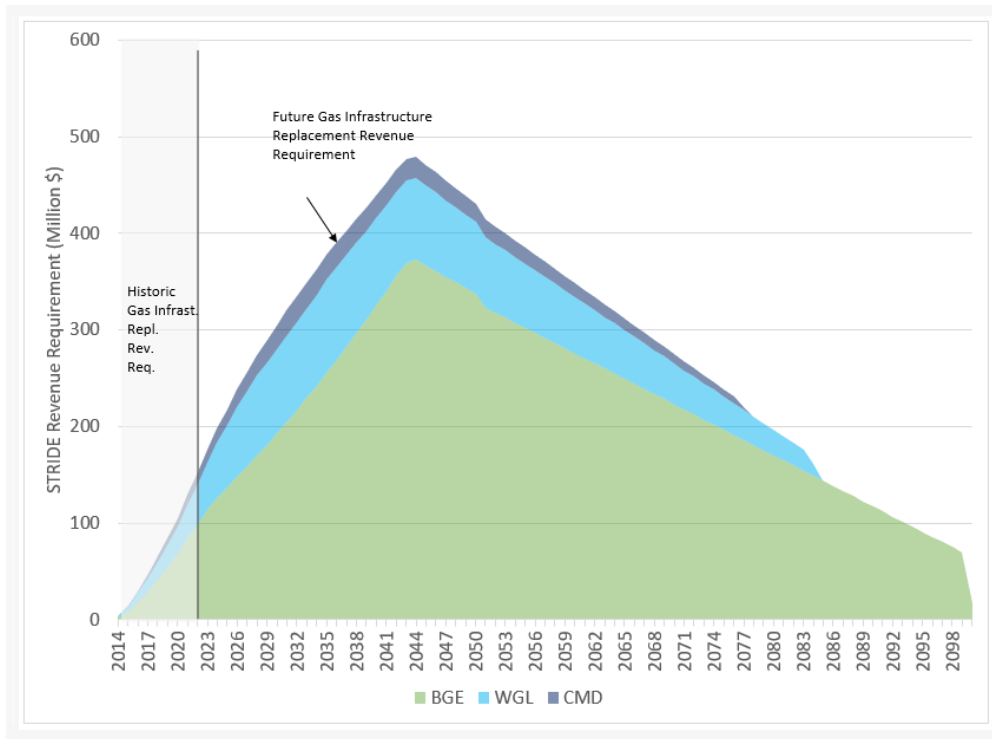


Figure 1 illustrates the current and future customer cost burdens from the three largest gas utilities’ plans for their infrastructure replacement programs. The figure shows the revenues that the three utilities would need to receive from customers annually to recover their investments—both currently and how they will increase over time. And this represents only a subset of utility capital spending. These revenue requirements are spread out across all the customers on the system and paid for in rates. As customers leave the gas system to electrify, however, rates necessarily increase as the costs are spread among fewer, remaining customers. And as rates rise, even more customers will leave the gas system. Eventually, the rates become uneconomic and the investment becomes stranded.

The good news is that the vast majority of the costs shown in Figure 1 have yet to be spent, and the best way to avoid stranded investment is to avoid the investment in the first place.

The gas transition plans HB 708 requires are necessary to make all the gas utilities’ investment plans more transparent, to slow the rapid acceleration of gas infrastructure investments, and to reduce the risk of stranded costs. Today, there are no transition plans—or any publicly available full accounting of the State’s natural gas

utilities' long-term planning. Such planning is necessary to protect consumers and ensure they benefit as the State moves to meet its climate goals.

The electric distribution is at a different—but also critical—junction. The future of the electric system should look very different from the traditional system of the past, but recent electric utility three-year plans show that in the coming years utilities are planning investments in wires, substations, and concrete similar to past investments.

The future distribution system must consider new and emerging technologies and be built knowing that technological change moves quickly. Unlike the existing system, which is built mostly to enable power to flow from large, centralized power plants to homes and businesses, it must be rethought to facilitate consumer demands for decentralized and innovative technologies, including:

- microgrids;
- localized solar;
- vehicle to grid charging;
- software to manage energy use—from EVs to household appliances;
- new billing systems;
- in-home displays;
- appliances that communicate with new meters; and
- other new technologies.

The distribution planning process must account for these and other—perhaps unforeseen—technologies, and it must account for all players in these new and emerging markets. Today, there is little insight into the electric utilities' long-term investment plans.

HB 708 provides important impetus to electric system planning and establishes a requirement to plan for a highly electrified future. While the General Assembly ultimately may need to provide more specific guidance to the Public Service Commission and the electric utilities, the bill's planning requirements will benefit customers by requiring a Commission planning process, increasing stakeholder transparency, and mandating the filing of electric utility system plans.

2. HB 708's changes to the EmPOWER statute further the interests of residential utility customers.

OPC supports HB 708's provisions extending the EmPOWER Maryland program, increasing its targets, and altering the programs that the EmPOWER program supports. Most important are the provisions that end financial incentives for equipment or appliances that use fossil fuels and that add programs for fuel-switching and promoting beneficial electrification. EmPOWER has long been an important vehicle for obtaining the benefits of increased energy efficiency. The State's historic effort to increase energy efficiency in the electric sector is a vital component of an overall climate strategy that

should work together with beneficial electrification. By adapting and extending the EmPOWER Maryland programs, Maryland will assure that increased electrification will coincide with the most efficient use of electricity. EmPOWER has allowed customers to lower usage and their bills through its incentives and programs. Extending the programs and requiring beneficial electrification will increase these customer benefits.

Recommendation: OPC requests a favorable report from the Economic Matters Committee for HB 708.