TO: Members, House Economic Matters Committee
FROM: Paul Pinsky - Director, MEA
SUBJECT: HB 839 - Investor-Owned Electric Companies - Clean Energy Homes Pilot Programs - Establishment (Maryland Resilient and Clean Energy Homes Act)
DATE: March 2, 2023

MEA Position: Letter of Information

The Maryland Energy Administration (MEA) appreciates the bill sponsor's efforts to spur investments for the purpose of decarbonizing the residential real estate market. However, in MEA's review of the legislation, several issues were raised, and they are included below.

Socialization of Costs Across Ratepayers

Under Section 7-912 as proposed by the legislation, an electric utility will be able to recover "all *reasonable* costs" associated with the Clean Energy Homes Pilot Programs required by this bill. In addition to the Pilot Programs themselves, the bill also declares that "reasonable cost of electric grid upgrades necessitated by a customer's adoption of beneficial electrification measures…". MEA notes that the bill also declares that certain investments are, by definition, reasonable. Typically, in a rate case, it is the Public Service Commission that determines the prudency of investments, and therefore the allowance of those expenses to be included in the rate base.

Conflict with Significant Inflation Reduction Act Programs

The federal Inflation Reduction Act, or "IRA", signed on August 18th, 2022 contains a number of energy-related provisions, including two rebate programs. **The HOMES residential energy efficiency rebate program and the High-Efficiency Electric Home Rebate Program will assist qualified applicants with certain home energy efficiency and electrification upgrades**.

The U.S. Department of Energy (DOE) will be providing an allocation of funds for these programs to each state on a formulaic basis through DOE's existing State Energy Program, or "SEP", framework. **Each program is slated for approximately $68 million in formula funds, totaling $136 million**. The funds will ultimately flow from DOE to MEA. MEA then will be responsible for designing and implementing the IRA-funded home energy rebate programs, in parallel with MEA and the State's existing portfolio of energy programs.

For Maryland to maximize the benefits of this federal windfall, it is imperative that MEA, along with her sister agencies and other stakeholders, coordinate these efforts; we must ensure that any existing or new programs are molded to complement the IRA programs and the associated, considerable resources. There does not appear to be evidence of any such coordination within the Maryland Resilient and Clean Energy Homes Act.

Definitions

"Beneficial electrification measure" is defined as a project that *either* reduces costs or emissions. The committee may want to adopt language that requires beneficial electrification to provide both reduced costs *and* reduced emissions to mitigate ratepayer impact and maximize program efficiency.

"Distributed energy resource" is defined, in part, as an energy resource that modifies the timing or amount of a customer's electrical consumption. The effects on timing and volumetric consumption solely impact the local distribution grid. To clarify, the committee may consider language for 7-901(d)(2) similar to: "modify the timing or amount of a customer's consumption of electricity provided by the local distribution grid."

"Qualifying low-income customer" encompasses what has historically been statutorily categorized as moderate-income.

Conclusion

The bill represents an ambitious plan to spur electrification in Maryland. However, the lack of coordination for the use of existing and expected resources should be noted, as well as the potential ratepayer impacts. **Utility rates must always be considered fully, as increases in utility rates tend to have significantly regressive economic impacts**. MEA asks the committee to carefully consider the forgoing information before rendering its report.