



TO: Chair Wilson, Vice Chair Crosby, and Members of the Economic Matters Committee
FROM: MEA
SUBJECT: HB 397 - Public Utilities - Thermal Energy Network Systems - Authorization and Establishment (Working for Accessible Renewable Maryland Thermal Heat (WARMTH) Act)
DATE: February 22, 2024

MEA Position: FAVORABLE WITH AMENDMENTS

This bill would require each gas company to propose a pilot geothermal energy network system that would provide certain residences, especially those in low to moderate income (LMI) neighborhoods, with a highly efficient, low-cost heating and cooling system and electric appliances.

MEA generally supports networked geothermal as one way to help Marylanders electrify their homes and buildings and meet the state's urgent greenhouse gas goals. Unlike networked geothermal pilot projects by Eversource and National Grid in Massachusetts, which are completely funded by utility ratepayers,¹ the Maryland pilot would task the State (MEA) with helping to consolidate state and federal resources to subsidize all behind-the-meter costs.

To the extent that the Strategic Energy Investment Fund or "SEIF" is used to fund the program in the future, it is likely that that expenditure will have a limiting effect on other MEA programs.

MEA has five amendments to the bill as written.

1. On p. 11, lines 10-19, cap total behind-the-meter costs at \$3 million. Pursuing and piloting the use of networked geothermal is laudable and a goal MEA supports. Given that this is a pilot project and there is some uncertainty in which and how much federal money could apply at this time, we propose to cap MEA's total investment to \$3 million total including any federal rebates. Federal rebates under the Inflation Reduction Act can provide a maximum of \$12,400 for low- to moderate-income (LMI) households. IRA rebates, however, will likely cover less than half of the total behind-the-meter costs for heat pumps, water heaters, panel and electric upgrades, installation, appliance replacement, project management, ductwork, and other construction costs. Presumably, under this bill, MEA would be responsible for the remainder of these costs. Costs incurred by the Maryland Environmental Service (MES) to administer the contracts do not appear to be addressed in the bill, raising the question of whether MEA will be expected to shoulder those additional costs as well. Also, there is a category of

¹ See, e.g., Application of Boston Gas Company d/b/a National Grid, D.P.U. 21-24, Mass. Public Service Commission, Exhibits FOH-4 and FOH-5 (December 15, 2021)(utility helps subsidize appliance costs such as stoves and dryers); NSAR Gas C. d/b/a Eversource Energy; Geothermal Demonstration Project D.P.U. 21-53; Budget Update (10/231/23)(HVAC only)

federal money –the Business Energy Investment Tax Credit (ITC)– that would not apply to this pilot project. Under recent guidance from the I.R.S., the Investment Tax Credit –which would cover 30% of total project costs (and greater values under certain conditions such as incorporating domestic content)– may not be available for a geothermal project that is owned jointly by a utility and a property owner, as proposed here.² MEA needs to budget with certainty.

2. Delete mention of \$12 million on p. 11, line 22, such that it reads: “THE ADMINISTRATION SHALL RESERVE ~~\$12,000,000 OF~~ FEDERAL FUNDING FROM THE U.S. DEPARTMENT OF ENERGY [.] As written here, a pilot with \$12M of federal funding could include at least 950 homes (assuming a maximum of \$12,400 per rebate per home). MEA would be responsible for the remaining behind-the-meter program costs, which could exceed \$20 million.

3. Older appliances. Consider adding to the PSC criteria a requirement that the utilities choose a pilot where many of the homes have appliances that are at or near the end of their useful lives.

4. Discontinuation. Consider on P. 9 inserting in subsection D a provision to protect customers in the event a pilot is discontinued such as (3) IN THE EVENT A PILOT SYSTEM IS DECOMMISSIONED OR DISCONTINUED BEFORE THE END OF THE USEFUL LIFE OF THE APPLIANCES INSTALLED UNDER THIS SUBTITLE, THE COMMISSION SHALL MAKE SURE THAT CUSTOMERS PARTICIPATING IN A PILOT SYSTEM DO NOT INCUR ADDITIONAL EXPENSES RELATED TO DECOMMISSIONING OR INSTALLING NEW APPLIANCES.

5. Community-based organization funding. Add “or any other state or federal funding source” to the provision on p. 10, line 26.

MEA urges the committee to issue a **favorable report as amended**. Our sincere thanks for your consideration of this testimony. For questions or additional information, please contact Joyce Lombardi at joyce.lombardi1@maryland.gov or 443.401.1081.

² U.S. Treasury Guidance on Section 48 of the Internal Revenue Code, (Nov. 17, 2023) available at <https://www.federalregister.gov/d/2023-25539/p-376> (specifically excluding a project in which there is different ownership of a geothermal underground loop and a geothermal heat pump system). See, also Proceeding on Motion of the Commission to Implement the Requirements of the Utility Thermal Energy Network and Jobs Act, Rochester Gas and Electric, New York Public Service Department, Case 22-M-0429 (December 2023)(mentioning ITC guidance as reason for initial utility ownership of HVAC system and underground loop during networked geothermal pilot, p. 55).