Center for Progressive Reform

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Testimony of Bryan Dunning
Senior Policy Analyst
Center for Progressive Reform

Before the Maryland House of Representatives' Economic Matters Committee
Regarding House Bill 0398: Abundant Affordable Clean Energy – Procurement and Development (AACE ACT) of 2025

Dear Chair Wilson, Vice Chair Crosby, and Members of the House Economic Matters Committee:

Thank you for the opportunity to testify today on behalf of the Center for Progressive Reform (the Center) in support of HB0398 (HB 398). The Center is a nonprofit research and advocacy organization that is focused on addressing our most pressing societal challenges, including advancing the concerns of historically marginalized communities by centering racial and economic justice in climate policy. For the reasons discussed in the testimony below, the Center requests that this committee issue a **favorable** report on HB 398.

Maryland currently faces significant increases in costs to ratepayers for both electric and gas service delivery. Although increases in gas utility costs have been ongoing, the increase in electricity prices to ratepayers is a new phenomenon in the state. This increase in electricity prices is attributable to policy decisions and a history of inaction in achieving needed new generation and transmission by the Regional Transmission Organization PJM. Maryland participates in PJM's wholesale energy market, including its renewable energy credit (REC) market, and notably imports a significant amount of its electricity from it. In brief, two factors at PJM have driven the energy-price concerns in Maryland, and, to one extent or another, across all states in PJM's operational footprint.

First, PJM has an extreme backlog in its interconnection queue. All generation facilities which connect to the PJM interstate transmission system – namely utility scale generators - require an interconnection agreement from PJM to connect to the grid. Securing this agreement is necessary for a power plant to become operational. However, the PJM interconnection queue is currently so backlogged that, in 2023, PJM announced it would cease to accept new projects for consideration, and has a roughly 5 year wait time from application to approval. This has resulted in hundreds of GWs of planned projects, largely renewables or storage, sitting in limbo rather than being able to service Maryland's electric load requirements. Beyond creating an impasse for bringing new generation online, the lengthy delay also can result in economic realities at the

time of application shifting – for example, inflation and supply chain issues – resulting in once viable project no longer able to proceed once the interconnection agreement is finally issued.

Although this backlog has been ongoing for numerous years, growth in electric demand has been historically relatively flat. However, demand is now on the rise – largely attributable to high-intensity energy use facilities such as data centers. The impact of the interconnection queue's failure to bring on new supply is being exacerbated as there is now a mismatch in in supply and demand, driving up prices.

Second, following concerns related to reliability, highlighted by both the Federal Energy Regulatory Commission and the National Energy Reliability Corporation, PJM made modifications as to what types of generation are eligible to bid into its 2025/2026 reliability pricing model capacity auction, which included a "derate" of certain natural gas generators. Although taking steps to improve reliability is laudable, the result is that this most recent auction saw an 800 percent increase from previous years, which will be passed on to ratepayers as a portion of their utility bill.

As such, Maryland will require significant investment in new generation serving in-state load to ensure supply meets demand, and that there is sufficient capacity provided to the grid to meet peak demand. This must be done in a timely, least-cost manner, while continuing to meet the state's legal obligations to decarbonize set out in the Climate Solutions Now Act. The AACE Act provides a pathway forward to achieving this, while additionally providing important protections for labor to ensure Maryland's workers receive, amongst other things, fair wages and benefits for their work in building a sound energy future. Critically, AACE provides a pathway to bring on new energy projects that serve Maryland's load requirements *within this decade* on a least-cost basis, while allowing flexibility to respond to potential shifts in future energy markets. This combination of rapidity, low-cost, and flexibility makes AACE a "no regrets" path to achieving resource adequacy to meet *current* and future electric load requirements in Maryland.

Battery Storage

The PJM interconnection queue has several battery storage projects that are set to exist the queue in the coming years. The AACE Act directs the Maryland Public Service Commission (PSC) to create a competitive procurement process in 2026 and 2027 for up to 1,600 MW of total battery storage projects, which will ensure a pathway for these projects to be rapidly constructed and operationalized.

Critically, AACE provides a pathway for these projects to be operational *in this decade* – one of the strengths of investing in storage projects is that they represent the fastest means of bringing new capacity response "generation" online, ensuring that energy concerns faced by Marylanders are responded to in the shortest amount of time possible.

These projects will be constructed in Maryland, and serve Maryland's peak demand– alleviating the need for comparatively more expensive "peaker" plants. These projects are also eligible to bid into the PJM capacity market which can, in part, alleviate soaring capacity market costs. AACE's competitive procurement process includes significant cost-benefit analyses as a part of any project application – including the avoided costs and the social cost of carbon to ensure lowest cost to ratepayers, as well as a CPCN-equivalent to ensure rapid deployment upon approval by the PSC. This storage build-out will also significantly contribute to Maryland's goal of 3,000 MW of in-state storage projects. Finally, this procurement process includes significant

labor protections, including the requirement for community benefit agreements, which include guarantees for hiring practices and wage provisions to ensure Maryland's workforce benefits from these projects.

AACE also provides significant investment in battery storage projects on the distribution grid. Although smaller in-scale than utility scale projects, this storage is not subject to the PJM interconnection approval process and allows for greater responsiveness and flexibility by the state to build out these resources. AACE provides a pathway for 150 MW of such distribution scale generation to be built out, by the electric companies, subject to cost-benefit analysis by the PSC prior to approval. These projects are also subject to important provisions protecting the electric companies, ensuring that ground made in labor protections over the years is not lost in developing this new approach to meeting the grid's peak demand.

Solar, Land-Based Wind, Small Scale Hydro, and The Renewable Energy Portfolio Standard

Maryland's historic REC and SREC incentives have been a powerful tool to jumpstart renewable generation in the state, however their "one-size-fits-all" approach often results in incentives that are mismatched to the needs of specific projects. The AACE act will "right size" the incentives available to *new* projects so that projects can receive the incentives they need to come online, while ensuring unneeded incentives are not passed through to ratepayers. Ensuring a "right sizing" is especially important for ensuring that, as utility scale projects exit the PJM Interconnection queue, there is a pathway to ensure that, after however long they have been in the queue, these projects can be economically viable to be constructed and brought online to serve Maryland's electric load.

AACE directs the PSC to oversee this rightsizing process, both for utility scale and distribution scale projects, ensuring flexibility in addressing the conditions of individual projects, and ensuring that the necessary authority to ensure that new generation projects can continue to come online in Maryland does not have to be a question returned year over year to the legislature. AACE creates a new class of RECs – SREC-IIs and REC-IIs, which represent the incentives from this tailored approach to supporting new generation projects and are eligible only for projects serving Maryland load – ensuring a prioritization of incentives paid by Maryland ratepayers to support generation serving Maryland's load.

New utility scale projects are to be addressed by a competitive procurement process at the PSC which sets a guaranteed fixed price for a project based on its application being subjected to least-cost analysis, and demonstrate that the project will serve Maryland's electric load. This process minimizes cost to ratepayers while ensuring the project is economically viable, though it is notable that renewables, particularly solar, are already generally inherently cheaper than fossil fuel alternatives. The procurement also includes labor protections and community benefit agreements. SREC-II and REC-IIs are subsequently issued to these projects operate to make up the difference between the fixed price issued by the PSC and market price sales for electricity to ensure project viability. This approach to utility-scale incentive-setting has been successful in other states, including Massachusetts, New Jersey, and Illinois, and AACE's language builds on these proven successes.

Distribution scale projects are subject to an Administratively Determined Incentive (ADI) set by the PSC. ADIs are set for projects within given capacity blocks – groupings of market sectors - to ensure broad growth of distributed generation across the state. Market sectors include behind the meter residential, behind the meter non-residential, aggregated net-metering, and

community solar, providing a spread of investment in new distribution scale projects to benefit all Maryand ratepayers. Through setting the value of an ADI, the PSC will tailor the amount of incentive a given project receives for each of the identified market sectors, allowing for a balance between the amount if incentive required to promote market growth across the sectors, without overly burdening ratepayers with incentive costs that exceed economic requirements for development. As is the case with competitive procurement for utility scale projects, the ADI model has been successful in other states to ensure ratepayer protection alongside of promoting renewable generation construction to meet the state's load.

These new SREC-II and REC-II incentives fit within Maryland's current RPS requirements. The new SREC-IIs (both from utility and distributed scale projects), REC-IIs, and existing ORECs are prioritized for purchase by Maryland electric sellers when they seek to meet their obligation under the RPS. AACE then prioritizes legacy SRECs, and finally, to meet any outstanding obligations under the RPS, sellers can purchase historic RECs from the PJM REC market. In such fashion, AACE prioritizes that incentive costs passed through to Maryland ratepayers are going to pay for projects that meet the State's energy requirements.

Ratepayer Protections

AACE provides several pathways to ensure that Maryland ratepayers are protected from rising electric utility bills. In its competitive procurement processes for new utility scale storage and renewable generation, as well as the ADI approach to distributed renewables, AACE creates a means to ensure that ratepayers are paying the least-cost value of new generation projects. This inherently has the benefit of driving down costs to ratepayers by ensuring low-cost supply to meet rising demand. However, AACE also ensures for direct return of energy costs to Maryland ratepayers.

It directs the Maryland Energy Administration to supervise an escrow account that will be created to direct certain funds from electricity costs back to ratepayers. The PSC will oversee transparency and security of these funds. Alternative compliance payments (ACP) from the legacy RPS/REC system will be directed to this escrow account rather than the Strategic Energy Investment Fund, returning the pass-through costs to ratepayers from the ACP to the ratepayers. The value of the ACP varies from year to year, though in 2023, this value was $320,363,538 – representing a major return to ratepayers from these pass-through costs. Similarly, AACE directs 75% of total franchise, sale, and use taxes from qualifying data centers – which are major drivers of increased electric demand which in turn increase ratepayer utility bills -to be contributed to this escrow account.

Nuclear Provisions

AACE ensures that existing clean generation in the state remains online, by providing a pathway to ensure that the Calvert Cliffs nuclear facility can meet its 2034 and 2036 relicensing obligations. This nuclear facility provides approximately 40 percent of current in-state generation, and is not a contributor to greenhouse gas emissions, making it a critical facet of Maryland's clean energy generation portfolio. To do this, AACE creates a "zero emissions credit" which acts as a safety net of last resort to ensure the facility's economic viability. The Zero emission credit only triggers if the facility no longer receives existing federal tax credits and applying a means-test to ensure that the facility is not otherwise economically viable and would require the credit to remain in operation.

Offshore Wind

The AACE Act directs the PSC, in its transmission study required under the POWER Act, to prioritize transmission from offshore wind projects to serve Maryland's load, ensuring ORECs paid by Maryland ratepayers are financing the delivery of electricity to the state. The AACE act also injects greater flexibility planning into transmission planning, allowing for voluntary agreements outside of engaging with PJM's long-term transmission planning process through FERC Order 1920.

Conclusion

In total, AACE provides a pathway to abundant, affordable clean energy for Maryland, doing so with a focus on low-cost, rapid build out, and flexibility. AACE's provisions require that new projects will directly benefit the state's energy requirements, directly benefit ratepayers, and ensure workers in Maryland benefit from the energy projects which they will build and maintain. Further, AACE supports the state's decarbonization goals, focusing on responsive storage projects and maximizing renewables – both at the utility scale as they exit the PJM interconnection queue, and across market sectors on the distribution grid. Fundamentally AACE provides needed solutions to resource adequacy *in this decade*. For these reasons, the Center requests that this Committee issue a **favorable** report on HB 398.