Committee: **Economic Matters**
Testimony on: **HB0398-Abundant Affordable Clean Energy – Procurement and Development (AACE Act)**
Submitting: **Deborah A. Cohn**
Position: **Favorable**
Hearing Date: **February 6, 2025**

Dear Chair Wilson, Vice-Chair Crosby and Committee Members:

Thank you for allowing my testimony today in support of HB0398. I have resided in Maryland since 1986. I encourage this Committee to address rising electric utility prices while ensuring reliability of supply. I request, however, that you achieve these goals without relying on new fossil fuel generating facilities. Instead, I urge you to leverage the power of the private sector to accelerate investments in new or more efficient existing transmission infrastructure and clean energy production while protecting ratepayers. Because the AACE Act takes just this approach, I urge this Committee to issue a FAVORABLE report on HB0398.

Maryland residents are facing an energy affordability crisis. Residents, schools and businesses are facing higher utility bills, further straining budgets already under pressure from increases in other monthly costs. Electric rates for Maryland's Exelon utilities have already increased above inflation rates. The disastrous June 1, 2025 to May 31, 2026 PJM capacity market auction will put additional pressure on electricity prices. Indeed, the Maryland Office of People's Counsel warned that the resulting unprecedented 800 percent increase in system wide electricity prices will cost customers in the PJM region nearly $15 billion, with BGE residential customers expected to see a $21 increase in monthly payments or around $250 that year, and with commercial customers paying on average $224 more per month or $2,685 of additional costs annually. Some customer's bills are increasing as much as 19 percent starting in mid-2025.[1]

Rising energy costs are due to an imbalance in supply and demand in the capacity market, even though PJM has sufficient reserves. Indeed, PJM recently downgraded the reliability of its gas reserves, creating a more realistic reflection of reliable reserve capacity. As long as PJM maintains adequate reserves, PJM is not facing a reliability issue.[2] To remedy this, we need to ensure that PJM rules are changed to permit and encourage more renewable energy capacity to bid into capacity market[3] and ensure that generators subject to extended reliability must run contracts bid into that market as well. We also need to

[1]Bill and Rate Impacts of PJM's 2025/2026 Capacity Market Results & Reliability Must-Run Units in Maryland at p29-30. https://opc.maryland.gov/Portals/0/Files/Publications/RMR%20Bill%20and%20Rates%20Impact%20Report_2024-08-14%20Final.pdf?ver=V9hZfyTmjLeNVt2Dg3cTgw%3d%3

[2] Rising consumer electricity costs also reflect increasing transmission and distribution costs and the need to account for wildfire costs, but the fire risk from lithium ion batteries can be constrained, and relevant safety protocols likely will be added to the AACE Act. https://energyinnovation.org/wp-content/uploads/Clean-Energy-Isnt-Driving-Power-Price-Spikes.pdf; https://www.canarymedia.com/articles/energy-storage/moss-landing-fire-reveals-flaws-in-the-battery-industrys-early-designs

[3] Proposed changes to PJM rules, particularly the proposed market seller offer cap or MSOC, may not go far enough to encourage renewable energy companies to participate in capacity markets. https://www.utilitydive.com/news/ferc-approves-pjm-plan-to-end-energy-efficiency-capacity-payments/732356/

encourage more clean energy capacity. New fossil fuel projects simply are more expensive to build than new storage and solar.[4] Indeed, gas is the most expensive option.[5]

Rising electricity costs are emblematic of several factors: (i) multiple PJM rules that need to be modified long term to ensure resource adequacy while protecting ratepayers[6], (ii) staggering projected increases in electricity demand primarily from high-intensity users, such as data centers, and (iii) the lack of sufficient market structures that leverage the power of the private sector to accelerate investments in new or more efficient existing transmission infrastructure, storage and clean energy production while protecting ratepayers.

Fortunately, in this legislative session the General Assembly has several opportunities to reduce the strain on ratepayers, increase energy affordability and promote resource adequacy consistent with Maryland's climate and greenhouse gas (GHG) reduction goals and in particular, without turning to new fossil fuel generating plants. One of these opportunities, HB0398, the Abundant, Affordable Clean Energy (AACE) Act, is a "no regrets" approach to addressing resource adequacy and affordability while generating family-supporting jobs in Maryland. The bill has six basic parts.

Battery Storage: Perhaps no provision of the AACE act can bring on new clean energy capacity as quickly as battery storage at the transmission and distribution levels. AACE 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 anticipated in that period to secure PJM queue approval. In addition, AACE creates a pathway for 150 MW of storage projects to be constructed or procured by electric companies connected to distribution lines, thus avoiding the PJM interconnection queue. These processes could bring on new battery storage that could be operational within a relatively few years. Battery storage can delay or potentially even eliminate the need for new generating plants and distribution and transmission lines and, importantly, can bid into the PJM capacity market, all of which can drive down consumer prices.

In response to the two year settlement[7] between PJM and several PJM state governors, Tom Rutigliano, with the Natural Resources Defense Council, indicated that in view of Maryland's clean energy goals, Maryland should aggressively build energy storage.[8] "It's the key link in any clean energy plan… [and] storage at this point is competitive with gas in terms of reliability it provides."[9] But Maryland needs to move quickly. Rutigliano said "[t]hey need to start working immediately to start getting storage built, and build it in ways that you can get around PJM's interconnection delays,"[10] on distribution lines. **HB0398 addresses these points directly**.

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[4] https://www.lazard.com/media/xemfey0k/lazards-lcoeplus-june-2024-_vf.pdf

[5] https://www.brattle.com/wp-content/uploads/2023/04/Real-Reliability-The-Value-of-Virtual-Power_5.3.2023.pdf.

[6] In response to a Pennsylvania complaint filed at the Federal Energy Regulatory Commission and supported by several governors, including Governor Moore, PJM is moving to set a price ceiling and floor for the capacity auctions for the next two years (through the 2027/28 delivery years). David Lapp, of the Maryland's Office of People's Counsel, has indicated that these actions do not go far enough in addressing the fundamental problems affecting the capacity market. As an example, PJM has not adopted many of the rule changes suggested in a letter to PJM from several governors, including Gov. Moore, to modify rules that unnecessarily increase electricity costs. As a result, certain impediments to having intermittent resources bid into the capacity markets at attractive rates have not been adequately modified to encourage their participation.

[7] https://www.utilitydive.com/news/pjm-shapiro-pennsylvania-capacity-auction-price-cap/738591/

[8] https://insideclimatenews.org/news/30012025/mid-atlantic-states-pjm-electricity-price-cap/

[9] Ibid.

[10] Ibid.

Renewable Energy Projects: AACE creates a method for **right-sizing different levels of incentives** for different sizes and types of renewable energy projects such as utility scale solar, distribution scale solar (rooftop and community solar), onshore wind and small-scale hydro. **This approach protects consumers**. For utility scale solar, the PSC administers a competitive reverse auction that establishes a guaranteed fixed price for the electricity. The resulting incentives would be sufficient to render the winning private sector projects financially viable while protecting consumers from paying unnecessarily high incentives. The SREC-IIs and REC-IIs issued to the winning projects make up the difference between the fixed price and market price set in PJM auctions.

For distribution scale projects, the PSC sets an Administratively Determined Incentive price, with different amounts set for different market segments, again ensuring enough incentive to attract new projects without burdening ratepayers with incentives exceeding market requirements.

Moreover, AACE ensures that incentives charged to ratepayers first incentivize new projects in Maryland, thereby increasing Maryland's ability to achieve its in-state solar, wind and other clean energy goals.

Additional Ratepayer Protections: Protecting ratepayers from higher costs is a consistent theme of HB0398. In addition to accelerating increasing supply and storage at competitively determined prices, this bill directs that certain fees be held in an escrow account supervised by the Maryland Energy Administration, with the PSC ensuring the transparency and security. A portion of these funds would be directed back to ratepayers to lower their costs. Funds would include 75% of franchise, sale and use taxes from qualifying data centers, alternative compliance payments from the legacy RPS/REC system, and funds generated when electric companies purchase SREC-IIs and REC-IIs from the escrow account in excess of the incentive pricing set under the reverse auctions. To make these ratepayer protections created in connection with the procurement incentives viable, energy suppliers that receive SREC-II or REC-II payments are required to sell energy, capacity and ancillary services into the markets operated by PJM, with a portion of the proceeds distributed to electric companies to be credited or refunded to their customers for pre-payment of the incentive pricing.

Contingent Support for Calvert Cliffs: Calvert Cliffs provides 40 percent[11] of Maryland's total electricity generation, but because Maryland consumes almost six times more energy than it produces,[12] Calvert Cliffs produces only around 12 percent of Maryland's energy supplies.[13] Currently, Calvert Cliffs is financially viable. To ensure that Calvert Cliffs can meet its 2034 and 2036 relicensing requirements, AACE creates a last resort zero emissions credit triggered only if two conditions are satisfied. Calvert Cliffs must not be receiving any federal tax credits and must satisfy the PSC that the facility would not be financially viable and able to remain in operation without the zero emissions credit. Finally, the PSC may not offer the credit after 2055.

Offshore Wind Transmission: AACE directs the PSC to conduct a comprehensive cost-benefit analysis examining offshore wind transmission planning on a multistate, regional or inter-regional basis and to

[11] https://www.eia.gov/state/analysis.php?sid=MD#:~:text=Maryland%27s%20only%20nuclear%20power%20plant,the%20state%27s%20generation%20in%202023.

[12] https://www.eia.gov/state/analysis.php?sid=MD

[13] https://extension.umd.edu/resource/marylands-energy-market-state-consumes-more-energy-it-produces-fs-1188/

prioritize projects that directly serve Maryland's electricity demand. By prioritizing interconnections near as well as in the Delmarva Peninsula, and by considering longer range interconnected transmission lines, AACE creates more flexibility to achieve Maryland's goal of 8,500 MW of offshore wind energy generation.

Worker Protections: In addition to providing several avenues to address the mismatch between supply and demand that is driving up consumer energy costs, HB0397 includes multiple provisions throughout the bill to protect workers' wages and benefits, thus creating family-supporting jobs in Maryland.