



SIERRA CLUB

MARYLAND CHAPTER

P.O. Box 278
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Committee: Economic Matters

Testimony on: HB 0900, “Electricity – Data Centers – Rate Schedule and Requirements”

Position: Support

Hearing Date: February 20, 2025

The Maryland Chapter of the Sierra Club supports HB 900, which would better protect ratepayers from potential costs imposed on the electric system by data centers. Specifically, HB 900 would require each electric company to submit to the Public Service Commission (PSC) for approval a rate schedule for data center customers that includes the following provisions: minimum durations for certain contracts, financial responsibilities, and fees. We believe these would be valuable steps in promoting recovery of the costs associated with data centers from the centers themselves. In addition, we recommend that the Committee and the PSC consider including demand-response provisions that would provide data centers with incentives for optimizing their loads to reduce the burden on the grid.

HB900 Provides Important Protections for Ratepayers

In the absence of HB 900, Maryland electricity ratepayers could end up paying for infrastructure required to serve new data centers, especially if the data centers do not materialize, are delayed, leave after only a few years, or do not consume as much electricity as originally planned. If enacted, the provisions in HB 900 would protect Maryland ratepayers. Electric system costs caused by data centers would be internalized by data center owners and developers, and not by Maryland ratepayers. Without the protections afforded by HB 900, there is a risk that other ratepayers will be responsible for the costs of infrastructure built in anticipation of these large new users.

Internalizing the costs of the new infrastructure investments can provide equity, market efficiency, and environmental benefits. HB 900 addresses the equity issue by requiring minimum contract durations, financial responsibilities, and fees. Proper internalization of investment costs through these provisions will ensure that ratepayers will not risk becoming burdened with costs that they did not cause. Proper internalization will also lead to more accurate price signals for the costs of new transmission and distribution and should reduce potentially unneeded infrastructure investments that would have further impacted Maryland land use and environment.

The Bill Is Consistent with Actions Taken in Other Jurisdictions:

HB 900 is consistent with actions taken in other states and jurisdictions to protect ratepayers. For example, AEP Ohio recently signed a stipulation agreement that incorporates requirements similar to those required in HB 900. The stipulation filed with the Public Utility Commission of Ohio requires data centers to show that they are financially viable and able to meet certain requirements, as well as to pay an exit fee if their project is canceled or they cannot meet obligations set in their electric service agreement contracts. These requirements will be in place for up to 12 years, including a four-year ramp-up period. A similar agreement between the Indiana Michigan Power corporation and large power users was reached in Indiana. Legislation introduced in Georgia (SB 34) in January 2025 also would mandate that no costs incurred by an

electric utility to serve commercial data centers shall be included in any general rates or charges approved or allowed to go into effect.

Additional Recommendations – Demand Response and Data Center Demand Flexibility

While Sierra Club fully supports the major provisions in HB 900, we recommend that the Committee also consider directing the PSC to examine rate structures that promote demand response and data center demand flexibility. Data center energy consumption and the need for new distribution and transmission infrastructure to serve this massive increase in demand will be a burden on Maryland's environment and potentially other ratepayers. Data centers have the capability to operate flexibly. For example, state-of-the-art methods enable operators to adjust the timing of artificial intelligence learning modes within the center or to use on-site battery backup to reduce demand. This flexibility enables data centers to shift or curtail consumption to support the distribution and transmission systems, reduce peak demand, and support grid services. Possible demand response requirements that could be studied include provisions that (a) provide that new large load customers that do not participate in one of the utility's demand response offerings would be prioritized for involuntary load shedding, or (b) require participation in demand response programs as a condition of service. Another possible policy to study would be flexible interconnection. Flexible interconnection refers to methods of connecting resources and load to the electricity grid that allow these resources and load to specify peak consumption lower than their total need. By requesting lower peak consumption and interconnection, data center deployment can be quicker with reduced infrastructure costs.

The incorporation of demand response and flexible interconnection in data center tariffs is not a new concept. Demand response requirements were part of the original data center tariffs proposed by AEP Ohio. The Citizens Action Coalition of Indiana argues for the inclusion of demand response in the Indiana Michigan Power data center tariff case. PG&E is seeking data centers to participate in its Flex Connect flexible interconnection pilot.

In addition, data center load flexibility is currently the subject of major national initiatives and data center company strategies. The Electric Power Research Institute recently announced a multi-year Data Center Flexible Load Initiative (DCFlex) in October 2024 with an objective "to spark change through hands-on and experiential demonstrations that showcase the full potential of data center operational flexibility and facility asset utilization," in partnership with multiple tech companies, electric utilities, and independent system operators. At least one major developer and owner of data centers, Verrus (a spinout from Alphabet) is designing flexible data centers. The company's thesis is that by relying on energy storage systems to "island" from the grid and power down batched workloads, data centers can support the grid, circumvent lengthy interconnection queues, and enable increased renewable energy penetration.

In summary, Maryland Sierra Club fully supports HB 900 and also recommends that the legislation direct the PSC to study demand response and demand flexibility as a complementary strategy to protect ratepayers while accommodating these large new users.

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