# Department of Legislative Services

Maryland General Assembly
2025 Session

## FISCAL AND POLICY NOTE
## First Reader

Senate Bill 998 (Senator M. Washington, *et al.*)

Education, Energy, and the Environment

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**Natural Gas - Strategic Infrastructure Development and Enhancement (Ratepayer Protection Act)**

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This bill alters the purpose of the process for authorizing gas infrastructure replacement ("STRIDE") surcharges, requires gas companies to submit additional information in proposed gas infrastructure replacement plans to the Public Service Commission (PSC), and adds additional criteria necessary for PSC to approve such plans.

## Fiscal Summary

**State Effect:** PSC can handle the bill's requirements with existing budgeted resources. The effect of the bill on ratepayers, including the State government as a utility customer, is discussed in the Additional Comments section below. State revenues are not affected.

**Local Effect:** The effect of the bill on ratepayers, including many local governments as gas customers, is discussed in the Additional Comments section below. Local revenues are not affected.

**Small Business Effect:** Potential meaningful, as discussed in the Additional Comments section below.

## Analysis

**Bill Summary:** It is the intent of the General Assembly that the purpose of the STRIDE surcharge process is to *promote* gas infrastructure improvements in the State, *when necessary and appropriate to ensure the safety of the gas system and to provide consistency with State climate policy*, by establishing a mechanism for gas companies to promptly recover reasonable and prudent costs of investments in eligible infrastructure replacement projects separate from base rate proceedings. (Italics indicates change from current law.)

In addition to other existing requirements, a plan filed by a gas company with PSC must include:

- a description of each eligible project, including the project's expected useful life;
- a demonstration that the gas company has selected and given priority to projects based on risk to the public and cost-effectiveness;
- an analysis that compares the costs of proposed replacement projects with alternatives to replacement, including (1) leak detection and repair and (2) the targeted retirement or abandonment of portions of the gas system in conjunction with electrification; and
- a plan for notifying customers affected by proposed projects at least two years in advance of construction to allow customers the opportunity to electrify.

In addition to other current criteria, PSC may approve a gas company's plan if it finds that the investments and estimated costs of eligible infrastructure replacement projects are:

- required to improve the safety of the gas system after consideration of alternatives to replacement;
- consistent with the need to reduce the use of natural gas in light of State climate policy; and
- consistent with the projected availability and cost-effectiveness of "natural gas alternatives."

"Natural gas" means methane gas produced from a geological formation beneath the surface of the earth. "Natural gas alternative" means a fuel that can be burned in tandem with or in place of natural gas, including biomethane, recovered methane, synthetic methane, and hydrogen.

**Current Law:**

*Regulation of Gas Companies, Generally*

PSC regulates gas companies, including monitoring retail competition and customer choice, to ensure that safe, reliable, and affordable gas service is provided. Rates charged by a gas distribution company are specified in the company's tariff and are approved through an order made by PSC. Through the rate making process, a gas company is allowed to charge just and reasonable rates for the regulated services it renders.

*Gas Infrastructure Replacement Surcharge*

*Overview and Purpose*

Chapter 161 of 2013 established an application and review process for gas infrastructure replacement plans with an associated monthly surcharge on customer bills (typically known as the "STRIDE" surcharge). The Act established the intent of the General Assembly that the purpose of the STRIDE surcharge process is to accelerate gas infrastructure improvements in the State by establishing a mechanism for gas companies to promptly recover reasonable and prudent costs of investments in eligible infrastructure replacement projects separate from base rate proceedings. To that end, the surcharge is collected at the same time as the eligible infrastructure expenditures occur, as opposed to subsequent to the expenditures as authorized in a base rate proceeding.

Subject to PSC review and approval, the fixed annual surcharge may not exceed $2 per month for each residential natural gas customer. The fixed annual surcharge for nonresidential customers may not be less than the fixed annual surcharge for residential customers, but also must be capped. To create a surcharge cap for all customer classes, costs must be allocated between residential and nonresidential customers consistent with the proportions of total distribution revenues that those classes bear, as determined in the gas company's most recent base rate filing.

All three of Maryland's major gas companies – Baltimore Gas and Electric Company (BGE), Washington Gas, and Columbia Gas – have filed with PSC and received approval for gas infrastructure replacement plans since the surcharge was created. However, only Washington Gas and Elkton Gas have active STRIDE plans. As of 2024, BGE conducts its infrastructure replacement work under its multi-year rate plan.

*Eligible Infrastructure, Company Plans, Approval Criteria*

"Eligible infrastructure replacement" is defined as the replacement or improvement in the existing infrastructure of a gas company that is (1) made on or after June 1, 2013; (2) designed to improve public safety or infrastructure reliability; (3) does not increase the revenue of a gas company by connecting an improvement directly to new natural gas customers; (4) reduces or has the potential to reduce greenhouse gas (GHG) emissions through a reduction in natural gas system leaks; and (5) is not included in the current rate base of the gas company as determined by the gas company's most recent base rate proceeding.

A plan for an eligible infrastructure replacement project must include (1) a timeline for completion of each eligible project; (2) the estimated cost of each project; (3) a description of customer benefits under the plan; and (4) any other information PSC considers necessary to evaluate the plan.

PSC must take final action to approve or deny a plan within 180 days after a gas company files a plan. PSC may approve a plan if it finds that the investments and estimated costs of eligible infrastructure replacement projects are reasonable and prudent and designed to improve public safety or infrastructure reliability over the short and long term. PSC must approve the cost recovery schedule associated with a plan at the same time that it approves a plan.

The surcharge applies for five years from the date of initial implementation of an approved plan. Costs are reviewed by PSC each year and the surcharge is adjusted to account for any difference between actual and recovered costs (unless PSC determines higher costs were reasonably and prudently incurred, in which case PSC must authorize an increase in the surcharge to recover the difference). In a base rate proceeding subsequent to the approval of a plan, PSC must take into account any benefits realized by the gas company as a result of an approved surcharge.

*Maryland Greenhouse Gas Emissions Reduction Targets – the Climate Solutions Now Act*

The Climate Solutions Now Act of 2022 (Chapter 38) made broad changes to the State's approach to reducing statewide GHG emissions and addressing climate change. Among other things, the Act accelerated previous statewide GHG emissions reductions targets originally established under the Greenhouse Gas Emissions Reduction Act by requiring the State to develop plans, adopt regulations, and implement programs to (1) reduce GHG emissions by 60% from 2006 levels by 2031 and (2) achieve net-zero statewide GHG emissions by 2045.

In December 2023, MDE published *Maryland's Climate Pollution Reduction Plan*, which was developed to implement Chapter 38. The plan includes multiple components that affect gas infrastructure.

**Additional Comments:** The bill adds additional criteria for STRIDE plan approval but does not alter the maximum STRIDE surcharge; it is unknown which projects, if any, will not be approved under the bill, and whether or not other projects will be approved instead. Projects not approved through STRIDE may also still be completed by the utilities through other investment/cost recovery processes. PSC advises that the effect on ratepayers, including the State, local governments, and small businesses, cannot be determined at this time. The Department of Legislative Services concurs with this assessment but notes that potential effects are limited to the distribution service territories of gas companies – generally central Maryland – and vary with natural gas usage by a particular entity.

## Additional Information

**Recent Prior Introductions:** Similar legislation has been introduced within the last three years. See SB 548 and HB 731 of 2024.

**Designated Cross File:** HB 419 (Delegate Embry, *et al.*) - Economic Matters.

**Information Source(s):** Public Service Commission; Office of People's Counsel; Maryland Department of the Environment; Department of Legislative Services

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