One Park Place | Suite 475 | Annapolis, MD 21401-3475
1-866-542-8163 | Fax: 410-837-0269
aarp.org/md | md@aarp.org | twitter: @aarpmd
facebook.com/aarpmd

HB 801 Natural Gas - Strategic Infrastructure Development and Enhancement - Surcharge and Plans (STRIDE Act of 2022)
UNFAVORABLE
House Economic Matters Committee
February 24th, 2022

Good Afternoon Chair Wilson and members of the Economic Matters Committee. I am Tammy Bresnahan, Director of Advocacy AARP MD. AARP MD and its over 850,000 members oppose HB 801 Natural Gas Strategic Infrastructure Development and Enhancement Surcharge and Plans.

HB 801 requires eligible infrastructure project costs collected under a gas infrastructure replacement surcharge to be included in base rates as part of rate adjustments made during a multi-year rate plan, with the surcharge continuing for eligible future projects that are not included in base rates.

Historically in Maryland before allowing utilities to recover their costs, regulators traditionally required a rate case review. Once set, the rates remain in place until a new rate case is filed and approved. A rate case ensures scrutiny of a utility's costs. Regulators can review costs, seeking decreases that might at least partially offset the need for a rate increase, thus reducing the overall price to consumers. This process also provides strong motivation for a utility to minimize its costs between rate cases.

Utilities want rate design changes that could significantly affect residential customers. For example, utilities increasingly are seeking to recover more of their costs through fixed customer charges that all users pay, while deemphasizing charges that vary based on the amount of electricity consumed. To the extent that this occurs, it shifts the burden of paying for these costs away from customers who use more electricity and thus toward those who use less. Another trend in rate design involves the use of new cost-recovery surcharges or "trackers." Trackers adjust rates between rate cases based on actual increases or decreases in certain utility costs. The danger they pose for consumers is that such adjustments tend to limit regulators' ability to scrutinize and evaluate costs. This design also may lessen the utility's incentive to control its costs between rate cases.

Home energy costs make up a sizable portion of household budgets. In recent years, volatile prices for natural gas, electricity, and fuel oil have significantly increased many consumers' costs. One group particularly vulnerable to rapid increases in energy prices are older consumers. Although they consume approximately as much energy as younger people do, older Americans devote a higher percentage of their total spending to residential energy costs. They spend a greater proportion of their income to heat their homes (this is true even after statistics are adjusted for weather and home size). Low-income older households spend an average of 10 percent of their income on residential energy. However, in about one out of four cases, low-income older households devote 15 percent or more of their income to home energy bills. Too often low-income older people must choose between cutting back on energy expenditures and reducing spending for other necessities and may end up risking their health or comfort.

For many older people in low- and moderate-income households, high and unpredictable home energy prices jeopardize stable home heating and cooling. This increases the possibility of their homes being too hot in summer and too cold in winter. Such exposure can lead to a host of adverse health outcomes, ranging from the aggravation of chronic health conditions to food spoilage to premature death. According to the most recent statistics, exposure to heat and cold kills thousands of people prematurely in the US each year; it also causes many adverse health outcomes that do not prove fatal.

AARP believes state regulators should devise cost-allocation methods that appropriately assign the cost of power plants, transmission, distribution costs, and accelerated depreciation expenses to those responsible for the costs and expenses. Such methods should be consistent with universal service and affordability goals.

- Regulators should ensure that all beneficiaries share the responsibility for paying joint and common costs based on a user-pays principle.
- Regulators should ensure that utility rate changes occur within the context of a full rate case review and depart from this approach only when a utility can demonstrate that extraordinary circumstances jeopardize its financial condition and require emergency or interim action.
- Regulators should require full rate case reviews at intervals short enough to ensure that the utility remains accountable to its customers.

If policymakers allow a utility to recover a portion of its expenditures via a surcharge or tracker on a ratepayer's utility bill, the following minimum consumer protections should be in place:

- A surcharge should recover only clearly defined costs, should expire in a reasonable period, and should undergo an audit or review (including public comment opportunities) to determine whether it achieved the intended result.
- The number of surcharges and trackers available to any one utility should be limited.
- A utility's authorized rate of return should be downwardly adjusted to reflect the reduced business risk that results from the guaranteed revenue stream that a surcharge or tracker provides.
- A surcharge or tracker should be designed so that cost overruns are absorbed by the utility and under spending is returned to ratepayers.
- The amount of a surcharge should be reduced to reflect utility cost savings when revenue from the surcharge funds' investments, such as upgrades in plant equipment, improves efficiency.

AARP is working hard to ensure that Marylanders can age in place without going broke.
We respectfully request an unfavorable report on HB 801. If you have questions, please contact Tammy Bresnahan at tbresnahan@aarp.org or by calling 410-302-8451.