



MARYLAND EDUCATION, HEALTH AND ENVIRONMENTAL AFFAIRS COMMITTEE

TESTIMONY IN OPPOSITION TO SB 528, THE CLIMATE SOLUTIONS NOW ACT OF 2022

FEBRUARY 15, 2022

The Apartment and Office Building Association of Metropolitan Washington (“AOBA”), on behalf of its members who own or manage approximately 20 million square feet of commercial office building space and approximately 60,000 multifamily residential building units in Montgomery County, Maryland,¹ hereby respectfully submits its opposition to Senate Bill 528, The Climate Solutions Now Act of 2022.

Over the past decade, growing concerns about climate change have led numerous organizations and think tanks to research how jurisdictions across the nation can achieve large reductions in greenhouse gas (GHG) emissions. These research efforts have noted that making existing buildings more energy efficient is critical to lowering a jurisdiction’s carbon emissions. Energy efficiency also has other positive effects, such as lowering energy bills for customers and property owners alike, reducing air pollution, and creating jobs. Recognizing these benefits, our members have taken steps over the previous decade to make efficiency upgrades to aspects of their properties, including windows, insulation, appliances, toilets, and showerheads, among others. While AOBA broadly supports efforts to reduce GHG emissions and curb the effects of climate change, SB 528 mandates unrealistic GHG reduction goals on commercial and multifamily property owners that will have unintended consequences for housing affordability and energy availability.

Broad Regulatory Authority and Aggressive Emissions Targets Have Unspecified Cost for Building Owners and Operators

The Climate Solutions Now Act sets two emissions targets: a 20% reduction in net GHG emissions by 2030 and a 40% reduction by 2035, with required reporting of direct emissions to the Department annually beginning in 2025. The Act also grants broad discretion to the Department of Environment to promulgate any regulation deemed necessary to advance these goals. The wide discretion granted to the Department comes with almost no direction or limits. As a result, the cost to property owners and operators to comply with future regulations could be enormous and both

¹ In Maryland, AOBA Members own, manage or control approximately 23 million square feet of commercial office space and approximately 133,000 multifamily residential building units. In the Washington, D.C., Maryland and Virginia metropolitan area, the total numbers for AOBA Members are approximately **185 million square feet** of commercial office space and more than **400,000 residential units** in the **District of Columbia, Maryland, and Virginia**.

economically and physically unworkable. Additionally, the bill does not direct the Department to work in tandem with property owners and operators to develop these regulations.

Moreover, it is unclear whether the bill's targets are feasible or what the overall economic cost would be. A cost-benefit analysis of the potential energy savings, absent the "societal cost of carbon" is necessary to understand the pure economic impact of the bill. Otherwise, the state will head into this process blind to whether these aggressive targets can be reached.

The Cost, Viability, and Desirability of Full Grid Electrification and Intermittent Energy Source Reliance are Open Questions.

Such an analysis should include an assessment of the ability of the state's power grid to handle full electrification and whether the reliability concerns regarding intermittent renewable energy sources can be properly mitigated. It is far from certain that the grid, which is comprised of Baltimore Gas and Electric, Washington Gas, and Pepco systems, can handle such a massive change on the scale called for by SB 258 and still reliably provide power regardless of severe weather events. As seen in Texas this past winter^{2 3} and California almost annually⁴, an overreliance on wind and solar energy can result in insufficient energy production to meet demand, leading to massive blackouts. This risk has not been properly assessed.

Maryland's net electricity generation from October of 2021 was produced through five sources generating 3478 MWh: natural gas (45%), nuclear (38%), coal-fired (8%), Hydroelectric (5%), and nonhydroelectric renewables (4%).⁵ Renewables only produced 9% of the state's electricity during that time. Full electrification would mean in the short term more coal and natural gas must be burned to generate the power necessary to serve this load. Moreover, the question remains about what to do with the underground infrastructure of Washington Gas and Baltimore Gas and Electric that will no longer be needed. Do we remove this infrastructure and if so, who will cover the cost of removal?

Additionally, SB 258 does not consider technological advances to natural gas that make this energy source more efficient, such as Certified Gas (CG) and Renewable Natural Gas, or the potential to increase hydrogen energy production. Certified Gas involves extracting natural gas in a manner that reduces emissions by 60-80%, while Renewable Natural Gas is carbon neutral and provides GHG emissions reductions without the need for equipment upgrades.⁶ Hydrogen is also renewable and a versatile source of energy that can be used for transport, heating, and electricity. None of these sources are acknowledged by this legislation.

SB 258 Places Property Owners and Operators in No-Win Situation

² <https://www.sciencedirect.com/science/article/pii/S2214629621001997>

³ https://www.wsj.com/articles/texas-spins-into-the-wind-11613605698?mod=opinion_lead_pos1

⁴ <https://www.reuters.com/business/energy/californias-clean-grid-may-lean-oil-gas-avoid-summer-blackouts-2021-08-11/>

⁵ <https://www.eia.gov/state/?sid=MD#tabs-4>

⁶ Washington Gas Climate Change Action Program, Part 1. December 15, 2021.

<https://washingtongasclimatebusinessplan.com/wp-content/uploads/2021/12/Climate-Change-Action-Program-Part-1-12.15.21.pdf>

SB 258 would mandate property owners and operators reduce the GHG emissions of their buildings by 20% within 5 years. As discussed above, the state's electric grid may not be capable of producing reliable electricity in a way that reduces GHG emissions enough to reach the proposed goals. In addition to this clear impediment, the retrofits necessary to reach full electrification and reduce property emissions would be substantial. AOBA members have already made upgrades available that reduce building emissions, such as switching to more efficient lighting systems, insulating windows, and installing energy-efficient appliances like refrigerators and microwaves. As such, compliance with the proposed requirements would require far more expensive changes like replacing current boilers with dual-energy heating systems, chiller upgrades, or comprehensive retrofit projects that can range from \$14 million to \$36 million, as noted by projects connected with Washington, DC's Sustainable Energy Utility (SEU).

Replacing boilers with fully electric versions presents its own specific challenges. Current electric boiler technology cannot heat water at the rate traditionally consumed. Beyond that issue, some properties, like 1980's garden-style apartment properties, cannot be retrofitted with electric boilers without razing the entire building. The same is true for other comprehensive retrofit projects, which make these changes incredibly expensive to complete. It is important to note that these types of properties are offering the State's naturally occurring affordable housing.

Even if these retrofits can be completed, the bill does not incentivize residents to adopt effective energy conservation practices. It makes little sense to create a BEPS program if the resulting efficiency benefits can be undermined by the wasteful energy habits of residents. Without the active commitment from both commercial building occupants and multifamily building residents, the GHG reduction goals of the bill will not be achieved.

These concerns, taken together, point to the possibility of increased future housing costs for Maryland renters. These retrofits come with high costs in terms of labor and capital that would place upward pressure on rents, especially in unsubsidized older market-rate housing, much of which makes up the state's affordable housing stock. Approximately 91% of rent collected goes toward the cost of maintaining, managing, and operating the property and paying real estate taxes. Unlike other types of businesses, housing providers cannot balance losses with other revenue categories. Spikes in operating costs that are either unexpected or incredibly high may only be managed through an increase in rent, a reduction in services to residents, or deferring planned capital improvements.

HB 258, while well-intentioned, has flaws that need to be addressed. Passing such broad and vague legislation means the state will embark on a process to meet aggressive GHG emissions reductions goals blind to the overall cost borne by property owners, renters, the state, and the wider public. These costs need to be properly analyzed, without consideration of vague social benefits of carbon reductions, which can skew any cost-benefit analysis with benefits that don't directly result from the proposed energy reductions. The bill in its current form could result in astronomical costs being borne by property owners, with implications for housing affordability and potentially without leading to the GHG emissions the legislation seeks to create.

For these reasons, AOBA opposes SB 258 and urges a cost-benefit analysis to be conducted.