STATE OF MARYLAND

PUBLIC SERVICE COMMISSION

March 24, 2022

Chair Kumar P. Barve
Environment and Transportation Committee
House Office Building, Room 251
Annapolis, MD 21401

RE: INFORMATION – SB 528 – Climate Solutions Now Act of 2022

Dear Chair Barve and Committee Members:

Senate Bill 528 envisions broad modifications statewide to address climate change, some of which impact the utility industry and ratepayers. The Maryland Public Service Commission would like to offer observations regarding the energy efficiency goal changes, as well as the option for counties to exceed state building energy performance standards.

Recognizing that energy efficiency is one of the least expensive ways to meet electricity demands for consumers, the Maryland General Assembly passed the *EmPOWER Maryland Energy Efficiency Act* in 2008. This law established the EmPOWER Maryland Program with the goal of reducing electricity consumption and peak demand. In 2017, the General Assembly passed legislation to update Maryland's energy efficiency goals and extended the EmPOWER Maryland Program through 2023. SB 528 would add a new program cycle covering 2024-2026 and gradually increase the savings goal from 2% to 2.75%.

The Commission oversees implementation of EmPOWER by the participating utilities and would like to highlight potential ratepayer impacts of the proposed amendments, for the Committee's consideration. Through June 30, 2021, EmPOWER saved over 12.6 million MWh and 2,702 MW of peak demand, generating $1.29 in benefits to Marylanders for every $1.00 spent on these programs. The savings in forgone power production is equivalent to reducing 8.97 million metric tons of carbon dioxide emissions.

Historically, the majority of energy savings under EmPOWER came from the replacement of inefficient lighting (*e.g.*, incandescent lamps) with energy efficient alternatives (*e.g.*, LEDs). EmPOWER and other energy efficiency programs across the country have changed customer lighting preferences and resulted in changes to federal lighting standards.

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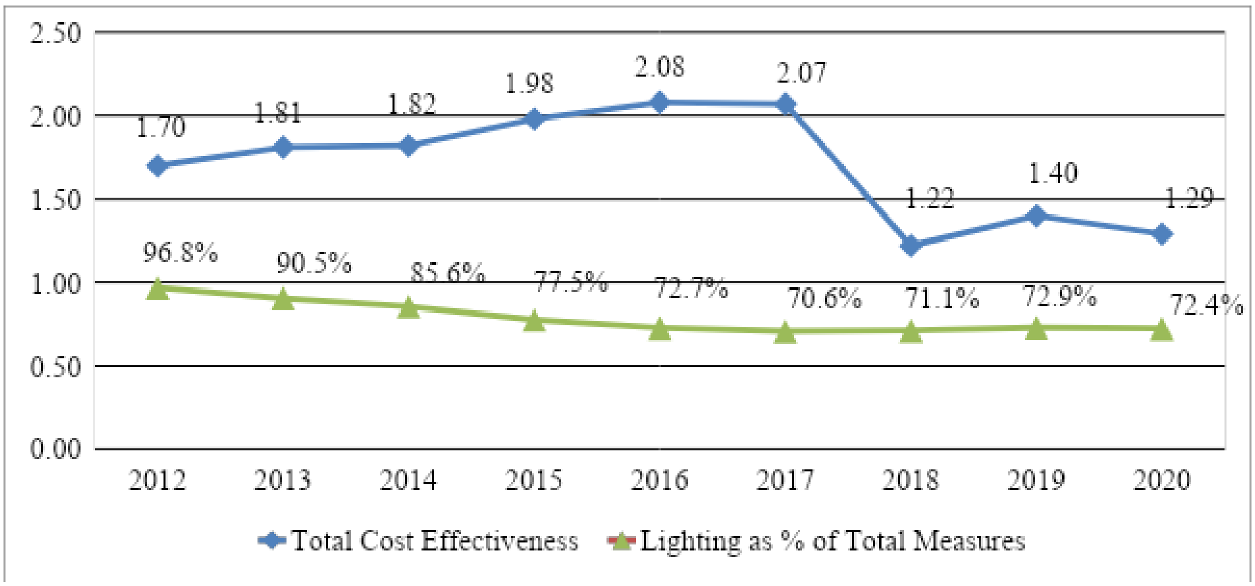
This has changed the lighting market, resulting in fewer inefficient lighting options available for purchase. With much of the lighting fixtures now upgraded to efficient bulbs, other energy efficiency measures are being sought. As such, it is becoming more challenging to keep the costs of EmPOWER from increasing and the cost-effectiveness of the programs from decreasing. The graph below illustrates how the cost-effectiveness of EmPOWER has declined over time, with the decline in lighting as a percent of the total measures installed under the program.



The decline in EmPOWER lighting programs is expected to continue. If the Maryland General Assembly intends to preserve the cost-effectiveness of EmPOWER, the utilities will be required to invest in more expensive energy efficiency measures, which will impact the rates customers will pay on their utility bills. This year (2022), the average electricity customer in Maryland that uses 1,000 kWh per month can expect to pay between $6.19 and $8.42 per month for their EmPOWER charge. This amount will need to increase to accommodate changes necessary to meet the more aggressive goals in SB 528, while also ensuring that the programs remain cost-effective. The exact rate impact is unknown without further study.

SB 528 also contains an amendment to *Environment Article* §2-1602(E), which states that a county may develop and adopt local building energy performance standards that are "at least as stringent" as state standards (page 64, lines 22-25). The Commission has been monitoring local legislation that contemplates a rapid transition away from the use of natural gas in buildings. Without knowing more details about MDE's proposed approval process, it is difficult to predict the potential unintended consequences of inconsistent county laws. This provision of the bill raises many questions related to cost, safety, and reliability.

First, it is reasonable to assume that cost recovery issues will arise, due to load shifting from the gas utility in the affected county to the electric utility. It is unknown who will pay for investments that the gas company made to that portion of the system because historically, rate classes are not based on location within a utility's territory. On the electric side, the utility will likely need to accelerate infrastructure investments to handle additional load. Utilities may request an accelerated recovery mechanism, especially if the utility is in the middle of a multi-year rate plan that did not include a forecast for the change in load.

Second, there may be safety and technical issues to address as a result of shutting down portions of the gas utility's distribution system. One issue may be the utility infrastructure left in place in the affected county to ensure they can deliver service to other portions of their service territory. The issue of decommissioning plans for the areas the gas utility no longer serves may need to be considered. Also, the legislation does not address a situation in which local legislation requires a transition period before a utility can reasonably prepare for the shift and ensure reliability on the gas and electric sides.

SB 528 requires the Commission to mandate gas and electric utilities to develop infrastructure plans, which will include necessary investments to accommodate the additional load of building electrification and the decommissioning of stranded gas facilities. Furthermore, the Commission will determine whether the State's electric grid can accommodate the additional load. On or before December 1, 2023, the Commission will report to the General Assembly. The Commission appreciates the opportunity to provide information on SB 528. Please contact Lisa Smith, Director of Legislative Affairs, at (410) 336-6288 if you have any questions.

Sincerely,

Jason M. Stanek
Chairman