February 25, 2022

HOUSE ENVIRONMENT AND TRANSPORTATION COMMITTEE
HB 831 – Reducing Greenhouse Gas Emissions – Commercial and Residential Buildings

Statement in Opposition

Chesapeake Utilities Corporation ("Chesapeake Utilities") respectfully **OPPOSES** certain provisions contained in HB 831. Among other things, HB 831 seeks to: (1) ban natural gas in all new residential and commercial buildings on or before January 1, 2023; and (2) impose strict emission limitations on existing commercial and multi-family residential buildings over 25,000 square feet[1] that decrease significantly over the next several years and impose severe fees on the owners of those buildings if they cannot convert off of natural gas service.

Chesapeake Utilities operates natural gas local distribution companies that serve approximately 31,000 customers on Maryland's Eastern Shore in Caroline, Cecil, Dorchester, Somerset, Wicomico and Worcester Counties. These public utilities are regulated by the Maryland Public Service Commission and have provided in the coldest months of the year safe, reliable, resilient and affordable service in the State for decades. As a company, Chesapeake Utilities serves as a positive and informed resource in the ongoing energy and climate change discussions. In fact, the natural gas industry in general (and Chesapeake Utilities in particular) has been a part of the largest reduction in greenhouse gas emissions in this country and will continue to drive the practical solutions needed to move forward. Chesapeake Utilities is committed to being part of the solution as Maryland considers legislation addressing greenhouse gas emissions.

Having said that, we oppose HB 831 because of the extraordinary uncertainty and costs it would impose on *each and every* Maryland utility ratepayer, which are significantly greater than any purported benefits the bill allegedly might provide. In addition, HB 831 is unnecessary because alternatives exist that can achieve greenhouse gas reductions in a practical and affordable manner; and under a realistic timeline that would not place the reliability of our electric grid at risk. Finally, HB 831 would eliminate thousands of good paying jobs (with family-sustaining wages) for energy workers.

HB 831 will significantly increase costs for Maryland residents. According to the Maryland Commission on Climate Change ("MCCC"), building direct use emissions account for 13% of economy-wide GHG emissions in Maryland.[2] To attempt to achieve this purported 13% reduction, the MCCC estimated that implementing a natural gas ban on new and existing buildings would result in a number of significant costs:

[1] We are aware of only two other states (Colorado and Washington) that have enacted similar legislation – but those laws apply only to buildings 50,000 square feet or larger

[2] *See* E3's *Maryland Building Decarbonization Study*, September 16, 2021 at 5

- Incremental total resource costs ramp up almost immediately and reach between $3 billion and $5 billion by 2045 ($2021).[3]
- *Annual* incremental electric grid investment costs ramp up over time and reach approximately $1.2 billion in 2045 ($2021).[4]
- Electricity rates increase between 2 and 3 cents per kilowatt-hour by 2045.[5]
- Gas rates increase to the $40- 50/MMBtu range by 2045.[6]

Relating to the gas rates increase, the MCC stated:

> By eliminating new natural gas connections and decreasing the natural gas customer base, gas delivery rates could increase more than 20–times the current rate for consumers left on the gas system, leading to significant equity concerns.[7]

In addition, a recent study by the Consumer Energy Alliance titled *The Hidden Costs of a Maryland Natural Gas Ban,* noted:

> *With more than 40% of Maryland homes relying on natural gas during the winter for heat, banning such a critical resource would be a devastating blow to families who would have to pay more than $26,000 to involuntarily reconfigure their home and purchase new appliances. A ban on natural gas would also lead to an increase in energy bills, placing an unnecessary burden on the nearly one in 10 Marylanders who live at or below the poverty level, those on fixed incomes, and businesses still recovering from the hardships of COVID-19.* [8]

HB 831 unnecessarily eliminates energy choice, compromises Maryland's electric grid and fails to recognize alternatives to a gas ban. Natural gas is a product that Maryland businesses and residents want and need. For example, obtaining natural gas service in Somerset County has been a priority of the Somerset County Commissioners for decades. We recently partnered with the State to bring a natural gas line to the University of

[3] MCCC *Building Energy Transition Plan*, November 2021 at 11 (assumes commercial building owners would pay $100/tCO2 for remaining emissions beginning in 2030, modeled as "alternative compliance" costs).
[4] *Id*. at 12. Maryland retail electricity rates are currently higher than the national average. *See* eia.gov.
[5] Id. at 14.
[6] *Id*. at 13. For comparison, EIA currently forecasts natural gas prices to remain near $4 per MMBtu in 2022 and decrease in 2023. *See* EIA.gov.
[7] MCCC *Building Energy Transition Plan*, November 2021 at 9
[8] *See* "Forced electrification could cost Maryland consumers more than $26,000, report finds" *The Star Democrat*, dated January 28, 2022

Maryland Eastern Shore and the Eastern Correctional Institute in Somerset County. This project allowed UMES and ECI to transition off other less clean fuels (fuel oil and wood chips) that had served those institutions for decades – immediately reducing GHG emissions in this community. HB 831 would have prevented this Somerset County project. Today, Maryland residents who live in areas served by natural gas can choose to use gas or not. However, HB 831 would take that choice away and force Maryland residents to use only electricity in their new homes.

Also, banning and reducing the use of natural gas will significantly increase the amount of electricity required to be delivered to Maryland customers, which ironically is generated by natural gas. Delivering this increased amount for electricity into Maryland will require billions of dollars of annual investments in the Nation's and State's electric generation, transmission and distribution systems. Electric transmission and distribution system planning is a complicated and time-consuming process – as it should be. It can take years to obtain the regulatory and federal/state/local permit approvals necessary to construct electric transmission lines, substations and related facilities. HB 831 would significantly and artificially increase the demand for electricity in Maryland without any plan (or reasonable timeline) to ensure that Maryland's electric grid can reliably deliver this energy.

Finally, we note that natural gas companies have been and will continue to be valuable contributors to lower GHG emissions. Chesapeake Utilities currently partners with developers of renewable natural gas projects in Maryland that turn chicken litter and other organic material into pipeline quality natural gas. In addition, we are actively involved in the transportation of hydrogen for blending with natural gas for utilization in the generation of electricity in other states. Chesapeake strongly supports these (and other) innovative advancements in technology and the continued utilization of the natural gas industry's established and already built infrastructure to increase the likelihood of achieving net-zero targets while minimizing customer impacts.[9]

HB 831 is a job killer for Maryland workers. Mandating electrification and banning access to affordable and plentiful natural gas to all new buildings in the State is a job killer for both union and non-union Maryland workers.

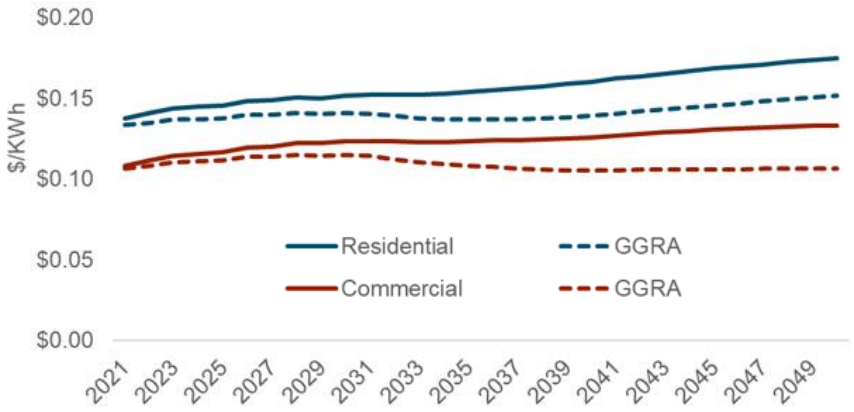
On behalf of Chesapeake Utilities, and our thousands of employees and their families who contribute every day in the communities where they live and work, we respectfully request an unfavorable vote on HB 831.

[9] https://www.aga.org/netzero.

Electricity and Gas Rate Impacts

Electricity rates increase gradually in the MWG Policy scenario to pay for the incremental electricity system costs. Rates are projected to increase from around 14 cents/kWh in 2021 to 17 cents/kWh in 2045 for residential customers and from around 11 cents/kWh in 2021 to 13 cents/kWh in 2045 for commercial customers. For both customer classes, rates are projected to increase by 2 cents/kWh by 2045 compared to the reference case.

Figure 6: Electricity Rates in the MWG Policy scenario



Although gas rate impacts are smaller in the MWG Policy scenario than any other scenario modeled, gas rates increase as consumers leave the gas system, leaving fewer consumers to pay for gas system costs. Gas rates remain flat through the 2020s but then climb to the $40-50/MMBtu range by 2045. This Plan recommends transitioning 100 percent of low-income households to heat pumps by 2030 to reduce energy burden for the most vulnerable Marylanders. Heat pump adoption in the commercial sector and the rest of the residential sector would ramp up in the 2030s as the costs of operating gas heating systems increase.

Figure 7: Residential Gas Rates

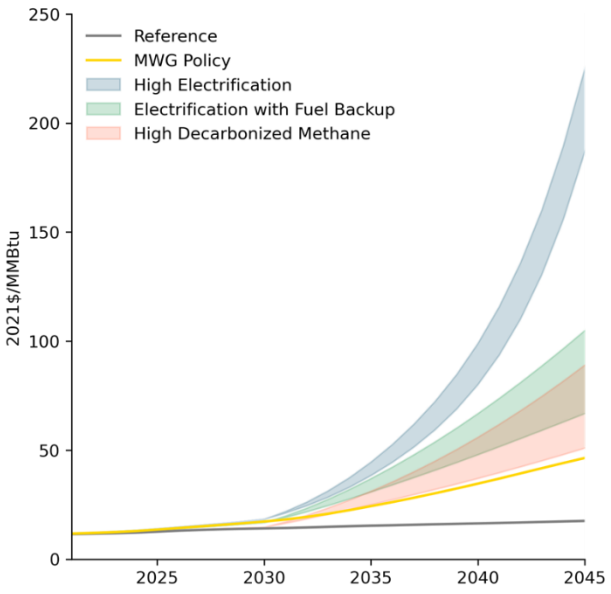


Figure 8: Commercial Gas Rates