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Finance Committee

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THE SENATE OF MARYLAND
Annapolis, Maryland 21401

February 15, 2022
Testimony of Senator Antonio Hayes in Support of
SB423 Natural Gas - Strategic Infrastructure Development and Enhancement - Surcharge and Plans (STRIDE Act of 2022)

Chairwoman Kelley and Members of the Finance Committee,

Senate Bill 423 is a technical bill that would alter the STRIDE mechanism, so that it operates with a multi-year rate plan consistent with how it operates under a traditional base rate case. Coupled with a multi-year plan, this legislation provides gas companies the regulatory framework to accelerate replacement of aging natural gas infrastructure.

The bill provides that eligible infrastructure project costs collected under a surcharge 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.

Since the Maryland General Assembly enacted the original STRIDE bill in 2013, STRIDE has proven to be an effective program for replacement of aging gas infrastructure at an accelerated pace to address safety, reliability, and environmental concerns. Under STRIDE, Maryland's gas companies have replaced hundreds of miles of outdated pipes and reduced the time to complete this critical work by decades – but this work can still be completed faster.

Without this legislation, a gas company operating under a multi-year plan must reduce its pace to avoid the surcharge cap. This would delay the work underway to timely and efficiently upgrade the gas infrastructure system to ensure continued safety and reliability.

It is our responsibility as the Maryland Legislature and representatives of the citizens of this state to act in their best interest and prioritize safety. This bill simply ensures that the modernization of the gas system infrastructure has the ability to advance and improve safety and reliability regardless of the ratemaking mechanism.

Additionally, STRIDE has resulted in the creation of hundreds of jobs, which has positively contributed to the state's economy. Now that utilities are allowed to file for multi-year rate plans, I want to ensure that STRIDE is able to operate with these plans, consistent with how it operates under a traditional rate base case.

I strongly urge a favorable report on SB 423.

Respectfully,

Senator Antonio L. Hayes
40th Legislative District - MD

BGE_STRIDE_factsheet_2022.pdf
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BGE
An Exelon Company

BGE's **STRIDE** program

The proven pipeline to a safer, more efficient natural gas system and a more prosperous Maryland economy.

replaced roughly
300 MILES
of gas mains and more than
70,000
service pipes

greenhouse gas emissions will be reduced by
210,000 METRIC TONS
per year compared to 2013

supporting more than
14,700 JOBS
and more than
$900 MILLION
in labor income

What is STRIDE?

STRIDE stands for Strategic Infrastructure Development and Enhancement Plan. It provides incentives for accelerating the modernization of natural gas infrastructure. Replacing the system is vital to avoid critical failures, leaks and customer reliability impacts. The program was signed into law with overwhelming bipartisan support in 2013.

Why is STRIDE so important, and so urgent?

BGE is on pace to replace aging gas infrastructure through STRIDE by 2042. Without STRIDE, this work is estimated to take 80-140 years. By doing more work sooner and recovering investments as the work is performed, STRIDE works efficiently and transparently to get the job done for customers.

How is STRIDE working for BGE customers and Marylanders?

SAFETY AND RELIABILITY

Since 2014, BGE has replaced approximately 300 miles of gas mains and more than 70,000 service pipes. Aging cast-iron, bare steel and copper infrastructure has a higher tendency to leak or cause other safety or reliability issues.

ENVIRONMENT

Since 2014, pipe replacements reduced the emission of about 4.8 million pounds of methane gas—a major greenhouse gas. When BGE's STRIDE plan is complete, greenhouse gas (GHG) emissions will have been reduced by 210,000 metric tons per year compared to 2013. That's the equivalent of taking 44,000 cars off the road.

JOBS AND ECONOMIC DEVELOPMENT

- BGE has invested more than $1 billion in STRIDE projects since 2014, and will invest more than $175 million in 2022 to modernize the gas system.
- BGE is partnering closely with minority- and women-owned vendors to achieve a 25 percent diverse spend target.
- BGE's planned STRIDE investments over the next 21 years are estimated to generate $2.5 billion of total impact on Maryland's economy—while supporting more than 14,700 jobs and more than $900 million in labor income.*

Would STRIDE be even more beneficial on a faster track?

ABSOLUTELY. HERE'S WHY

- If BGE completed STRIDE modernization plans 25% sooner (by 2035), those investments would create about $400 million in additional economic impact and $200 million in additional labor income.*
- BGE's investments would generate more jobs sooner, supporting the economic recovery in Maryland.*
- BGE's accelerated investments would reduce greenhouse gas emissions sooner.*

Visit **MarylandStride.com** for more information.

*Econsult study

BGE-SB 423 STRIDE Testimony 2022 - Favor.FINAL.pdf
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Position Statement

SUPPORT
Senate Finance Committee
02/15/2022

Senate Bill 423 – Natural Gas – Strategic Infrastructure Development and Enhancement – Surcharge and Plans (STRIDE Act of 2022)

Baltimore Gas and Electric Company (BGE) supports *Senate Bill 423 –Natural Gas – Strategic Infrastructure Development and Enhancement – Surcharge and Plans (STRIDE Act of 2022)*, which facilitates accelerated replacement of aging natural gas infrastructure by modifying the Strategic Infrastructure Development and Enhancement (STRIDE) mechanism to be compatible with a multi-year rate plan, as well as a traditional base rate case.

Since the Commission approved BGE's initial 5-year, $400 million STRIDE plan in 2014, BGE has invested more than $1 billion in gas system infrastructure replacement and has retired over 300 miles of aging cast iron or bare steel gas pipeline. As part of these projects, BGE has retired approximately 300 miles of low-pressure pipeline. In addition, we have replaced over 70,000 metallic service lines. All of this work to date has required the support of 600 full-time equivalent jobs, including both BGE employees and contractors. These are not temporary jobs, but rather career jobs to support BGE's currently approved STRIDE plan.

While STRIDE is working for the Maryland natural gas customer, it can work even better. This legislation would position BGE to seek to further accelerate the replacement of aging, leak-prone pipes and the reduction of low-pressure infrastructure, while modernizing the gas system through replacements.

In 2021, BGE became the first Maryland utility to pilot a multi-year rate plan. While this innovative ratemaking model promises significant benefits to Maryland's utility customers, the STRIDE mechanism needs updating to reflect that multi-year plans are replacing traditional rate cases for several Maryland utilities. Senate Bill 423 would alter the STRIDE mechanism, so that it operates with a multi-year rate plan consistent with how it operates under a traditional base rate case. This modification will facilitate BGE's accelerated gas replacement work through the company's multi-year rate plan period and beyond.

Completing a replacement and modernization program sooner will accelerate the reduction in the number of leaks on BGE's gas system, which will reduce BGE's pipeline operating and maintenance costs and result in direct savings to customers. In addition to direct customer savings through cost avoidance, an accelerated investment program delivers greenhouse gas emission reductions sooner, improves safety and reliability for our customers quicker, and will result in greater demand for a skilled labor force that is currently in short supply.

As seen from the work to date, Maryland can expect increased job and economic benefits from the passage of Senate Bill 423. STRIDE has created a demand for these skilled, full-time, career jobs. Based on an impact study BGE commissioned by Econsult Solutions, Inc (ESI), under the current plan the total economic impact in the state of Maryland is projected to be approximately $2.5 billion, supporting more than 14,700 jobs through 2042. If BGE's STRIDE modernization plans are completed at an accelerated pace of approximately five years, those investments are expected to create about $400 million in additional economic impact and $200 million in additional labor income.

Modernizing the STRIDE mechanism to fit with evolving ratemaking policies will position Maryland to realize these additional benefits in a shorter period of time.

For these reasons, BGE respectfully requests a favorable report from the Committee.

Sandy Grace | Charles Washington | Allyson Black | 410.269.5281

SB0423_OPC_Oppose -- SB423_OPC_Oppose.pdf
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Position: UNF

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BILL NO.:	Senate Bill 423 Natural Gas Strategic Infrastructure Development and Enhancement Surcharge and Plans
COMMITTEE:	Senate Finance
HEARING DATE:	February 15, 2022
SPONSOR:	Senator Hayes
POSITION:	Oppose

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The STRIDE law (Public Utilities Article § 4-210) gives utilities a way of recovering their infrastructure spending from customers that is much faster than usual cost recovery methods. Senate Bill 423 would amend the STRIDE law to make cost recovery even easier for utilities with multi-year rate plans. It would enable a utility to move "eligible infrastructure project costs collected previously under a surcharge" into base rates at the time of its multi-rate plan annual rate change. This amendment does not benefit consumers, and the Office of People's Counsel opposes this change to the STRIDE law.

Overview of the STRIDE Law

Enacted in 2013, the STRIDE law permits Maryland's gas distribution utilities to submit five-year infrastructure replacement plans to the Maryland Public Service Commission. The law is intended to incent the replacement of aging gas distribution infrastructure by providing utilities with advance cost recovery. Specifically, the STRIDE law allows utilities to include a monthly surcharge on customer bills to recover the estimated costs of replacement projects contemporaneously with, or even before they begin work on, the projects. The amount of the monthly surcharge is determined shortly before the beginning of each calendar year and, with some limited exceptions, remains the same for each month in the following calendar year. The monthly surcharge amount is based on the work planned in that year and its estimated cost.

The STRIDE law provides that the surcharge may not exceed $2.00/month on residential customer bills. The law sets the surcharge limits for other customer classes proportional to the residential customer surcharge based on a utility's total distribution revenues. Thus, the $2.00/month residential surcharge cap also has the effect of limiting the monthly STRIDE costs that other customer classes pay.

The STRIDE statute's surcharge provision promotes transparency. The General Assembly required the surcharge to be visible on customer bills.

The surcharge cap does not limit the utilities' ability to recover the costs of its STRIDE investments. Rather, it means only that for those costs above the cap, the utility must wait until its next base rate case to begin recovering them.

The STRIDE law requires utilities to file a base rate case within five years of the implementation of a STRIDE plan. In a base rate case, a utility's rates are set to reflect recent historic cost data, with certain adjustments.

Although the surcharge allows utilities with STRIDE plans to recover costs early, the rate base process is when all the STRIDE investments are reviewed for prudency.[1] If the Commission determines that the investments were prudent, the costs are moved out of the surcharge and into the utility's rate base. This movement of costs from the surcharge to rate base has the effect of reducing the STRIDE surcharge, which makes it less likely that a STRIDE utility will hit the surcharge caps.

At present, four Maryland gas distribution utilities have gas infrastructure replacement plans under STRIDE—Baltimore Gas and Electric Company (BGE), Washington Gas Light Company, Columbia Gas of Maryland, Inc., and Elkton Gas Company. Currently, only one gas utility with a STRIDE plan—BGE—is operating under a multi-year plan.[2]

Comments

1. SB 423 will weaken the surcharge cap's consumer protections.

When the Commission approves a multi-year rate plan, it approves up to three years of rates, with the rate levels increasing after each year to reflect projected increased utility spending. SB 423 would automatically move all a utility's STRIDE spending from

[1] The prudency test is "whether a prudent utility would have made the decision [in question] under all of the circumstances that were known, or should have been known, at the time the decision was made." Commission Order No. 68268, *Re Potomac Edison Co.*, 79 Md. P.S.C. 422 (Case No. 8523C, 1988).
[2] The other three Maryland gas utilities with STRIDE plans, however, could also apply to the Commission for an MRP.

the STRIDE surcharge to base rates whenever rates change within a multi-year rate plan. This movement of cost recovery from the surcharge to rate base would have the effect of reducing the STRIDE surcharge, making it less likely that a STRIDE utility will hit the surcharge caps.

Customers still pay costs that move out of the surcharge and into base rates. The costs are added to the pool of all other utility costs. Thus, while SB 423 would allow utilities to avoid hitting the cap, it would remove the surcharge's cost-control effect. By easily and automatically shifting costs from a capped program to uncapped base rates, it will encourage *additional* spending that will immediately result in higher bills for customers by allowing the utility to raise rates *and* raise the surcharge in the middle of the multi-year plan.

SB 423 will effectively raise the monthly residential surcharge cap to $6.00/month over the course of a multi-year plan. It will permit a utility to make investments resulting in a new $2.00 monthly surcharge in each of the three years of a multi-year plan. Stated differently, when a gas utility cumulatively makes investments in STRIDE year-over-year, the revenue necessary to recover those investments continues to grow and will eventually bump up against the cap. By allowing an automatic reset of the surcharge amount every year, SB 423 encourages utilities to spend in each year what they would otherwise be likely to spend over three years.

In this regard, SB 423 is inconsistent with the purpose and the spirit of the STRIDE law's key consumer protection—the monthly surcharge cap.

2. **SB 423 will remove transparency of the costs of the STRIDE program.**

The STRIDE law promotes transparency, and the Commission has cited "added transparency" as one of the drivers behind its adoption of multi-year rate plans. SB 423 is inconsistent with that goal because it would allow STRIDE-program costs to be hidden in rate base.

SB 423's inconsistency with the goal of transparency is illustrated by BGE's 2020 multi-year rate case before the Commission. BGE sought to include all STRIDE costs up to the cap in the surcharge, but then recover any amounts over the cap through base rates. BGE projected that it would exceed the cap in 2022 and 2023. The Commission rejected BGE's proposal on the basis that it lacked transparency because it would mix the costs of STRIDE projects with other BGE costs:

> The Commission further finds that BGE's proposal to place some or all of its STRIDE costs in the [multi-year rate plan] MRP lacks transparency. The General Assembly required that the surcharge be visible to customers. Placing STRIDE projects directly into the base rate circumvents that transparency by requiring the Commission to

> approve advanced recovery of STRIDE projects with no visibility to customers, instead mixing STRIDE costs inextricably with all the other elements of BGE's rates.[3]

Similar to what BGE proposed and the Commission rejected, SB 423 would mask STRIDE costs in customer bills with other costs in their rates. Throughout the course of a multi-year rate plan, the customers of gas companies with STRIDE programs would have a line item on their bills showing the STRIDE surcharge amount. But if "eligible infrastructure project costs collected previously under a surcharge" were annually moved to base rates by operation of law, as SB 423 allows, the total STRIDE costs collected from customers in rates would be hidden. In the words of the Commission, STRIDE costs would be mixed "inextricably with all the other elements of BGE's rates." SB 423 would remove the customer "visibility" that the STRIDE surcharge provides.

It is true that the Commission can and has moved STRIDE charges into base rates *during a rate case.* This allows the surcharge to be reset, which could mean that the base rates plus new STRIDE charges impose a burden greater than $2 per month per residential ratepayer. But SB 423 would shift costs automatically from the surcharge to base rates every 12 months—far more frequently than the typical utility rate case filing schedule. Thus, by encouraging additional spending, SB 423 would make it easier for utilities to burden customers with costs that exceed the $2 per month per residential customer in current law.

3. SB 423 will eliminate stakeholders' and the Commission's ability to review STRIDE project costs for prudency before they are added to base rates.

When a utility applies for Commission approval to move STRIDE plant into base rates in a base rate case, stakeholders and the Commission review the costs for prudency. The Commission will only allow STRIDE costs to be moved into rate base upon a finding that the STRIDE investments were prudent. STRIDE costs that have undergone prudence review take on a different status. They are no longer "eligible infrastructure project costs collected previously under a surcharge." They are now prudently incurred historic capital costs.

With SB 423, no prudency review would occur before the costs hit base rates. STRIDE costs would move from the STRIDE surcharge to base rates automatically without any qualitative review. Allowing any utility investments into base rates without a prudency review is in direct conflict with the Commission's role as the Maryland Court of Appeals has defined it—"the Commission's role is to determine what rates the utility

[3] Maryland Public Service Commission Order 89678 (Case No. 9645) *Application of Baltimore Gas and Electric Company for an Electric and Gas Multi-Year Plan* (December 16, 2020) p. 29, ¶ 60.

should be allowed to charge in future years to *cover prudent expenses* and earn a reasonable profit."[4]

While the Commission and stakeholders could still conduct a prudency review of these costs at the end of the multiyear plan, the effectiveness of such a review will be impaired. To use the words of the Commission, by that point the costs will be linked "inextricably with all the other elements of BGE's rates." Moreover, the review process at the end of an MRP will include a review of all utility spending over the course of multiple years.

In sum, by amending the STRIDE law to move "eligible infrastructure project costs collected previously under a surcharge" into base rates at the time of each annual rate change within a multi-year rate plan, SB 423 weakens consumer protections, is inconsistent with the Commission's transparency goals, and eliminates an essential step in the ratemaking process.

Recommendation: OPC requests an unfavorable report on Senate Bill 423.

[4] *Office of People's Counsel v. Maryland Pub. Serv. Comm'n*, 355 Md. 1 (1999) (emphasis added).

SB 423_NCLC_Wein_Oppose 02152022.pdf
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Position: UNF

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Maryland Senate, Senate Finance Committee
Hearing on **SB 423- Natural Gas - Strategic Infrastructure Development and Enhancement - Surcharge and Plans (STRIDE Act of 2022)**
Testimony of Olivia Wein, National Consumer Law Center
February 15, 2022

Position -- OPPOSE

To the Members of the Senate Finance Committee:

Thank you for conducting this hearing on Senate Bill 423- *Natural Gas - Strategic Infrastructure Development and Enhancement - Surcharge and Plans (STRIDE Act of 2022)*. My name is Olivia Wein, and I am an attorney at the National Consumer Law Center, where I focus on energy and utility matters, and am a long-time resident of Montgomery County and a customer of Washington Gas. The National Consumer Law Center (NCLC) is a nonprofit organization that, since 1969, has used its expertise in consumer law and energy policy to work for consumer justice and economic security for low-income and other disadvantaged people. We submit this testimony on behalf of our low-income clients.

NCLC has been actively involved in advocacy for consumers who have struggled to afford vital utility service, including advocacy in Maryland and other states. We offer these comments in opposition to SB 423, which if enacted would erode utility consumer protections and would likely lead to higher gas bills for residential customers.

SB 423 seeks to amend the Strategic Infrastructure Development and Enhancement (STRIDE) statute, which governs cost recovery for gas utility infrastructure repairs and replacement.[1] SB 423 would allow the automatic shifting of additional gas infrastructure costs into base utility rates for residential customers. Gas utilities already have the ability to seek approval from the Public Service Commission (PSC) to move these costs into base rates, but SB 423 would remove this level of oversight and would deprive the PSC of the opportunity to evaluate whether the gas infrastructure investments were prudent before they are removed from the surcharge and added to base rates.

Further, SB 423 would weaken a valuable consumer protection for residential gas customers. Currently, residential gas customers can be charged no more than $2 per month for allowable gas infrastructure investments.[2] If SB 423 were enacted, gas utilities would be allowed to automatically move more of their gas infrastructure investments into base rates, which would raise rates and circumvent the effectiveness of the cap on residential customer charges as a consumer protection.

SB 423 would be likely to increase gas utility bills for residential customers, including many low-income customers. Monthly gas bills are already elevated, as winter price spikes drove up gas costs this winter.[3] While Maryland has bill payment assistance programs to assist low-income customers, many customers continue to struggle to afford their utility bills. Low-income Marylanders pay an average of 13% of their annual income on energy costs, compared to 2% for non-low-income households.[4] This translates to an average annual low-income energy

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[1] STRIDE statute, PUA §4-210.
[2] PUA §4-210.
[3] *See, e.g.*, U.S. Energy Information Admin., Short-Term Energy Outlook (Feb. 2022), available at https://www.eia.gov/outlooks/steo/pdf/steo_full.pdf
[4] Applied Public Policy Research Institute for Study and Evaluation (APPRISE), *Maryland Low-Income Market Characterization Report* (Oct 2018) at p.59. Available at

bill of $2,658, but an average annual income of only $20,038. Extremely poor households (0 to 75% of the federal poverty level) face an average annual energy bill that requires 42% of their annual income (e.g., average annual energy bill of $2,541, but an average annual income of $6,120).[5]

In addition, while it is not directly included in this legislation, gas infrastructure investments have implications for Maryland's emission reduction goals. Several states, including California,[6] Colorado,[7] and Massachusetts[8] have taken steps to consider together gas infrastructure safety concerns, the need to transition to more renewable energy sources, impacts on gas utility operations, and the impacts on ratepayers. Maryland should not encourage or facilitate gas infrastructure investments without considering the impact on the state's emission reduction goals as set forth in the 2030 Greenhouse Gas Emissions Reduction Act (GGRA) Plan.

In conclusion, NCLC opposes SB 423, which has the potential to worsen the energy burdens of low-income consumers in Maryland. If you have any questions, please feel free to contact Olivia Wein at owein@nclc.org.

Sincerely,

Olivia Wein, Staff Attorney
National Consumer Law Center, on behalf of our low-income clients

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http://mlrt.opc.maryland.gov/pdf/APPRISE%20Maryland%20Low-Income%20Market%20Characterization%20Report%20-%20September%202018.pdf.

[5] *Id.*

[6] California Public Utilities Commission, Long-Term Gas Planning Proceeding (R 20-01-007)

[7] Colorado Public Utilities Commission, Gas Rulemaking Proceeding 21R-0449G.

[8] Massachusetts Department of Public Utilities, Future of Gas Proceeding, Docket No. D.P.U. 20-80.

SB423_MDSierraClub_unf 15Feb2022.pdf
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Committee: **Finance**

Testimony on: **SB 0423 Natural Gas-Strategic Infrastructure Development and Enhancement – Surcharge and Plans (STRIDE Act of 2022)**

Position: **Oppose**

Hearing Date: **February 15, 2022**

The Maryland Chapter of the Sierra Club urges an unfavorable report for SB 423 which would enable gas utilities to dramatically increase capital spending on gas utility infrastructure including main and service lines. This will lead to increased rates for consumers and businesses, hardship for low and moderate income households, and stranded assets as the state of Maryland leads in the transition to a carbon neutral future

SB 423 would allow gas utilities to move STRIDE expenditures into base rates and establish a new $2 per month surcharge any time base rates change instead of each five years. Under multi-year rate plans, base rates change each year as capital expenditures are made by the utility. Potentially, utilities could increase rates by as much $10/month each five years instead of $2/month under the current STRIDE legislation (PSC Order 89482, page 24). For the 1.2 million customers covered by STRIDE at Baltimore Gas and Electric, Washington Gas, and Columbia Gas, this could increase rates by more than $144 million or $120 per customer annually every five years.

Reducing greenhouse gas pollution is critical to limiting the damage from the climate crisis. The Maryland Commission on Climate Change has recommended a 50% reduction in greenhouse gas pollution by 2030 and net zero pollution by 2045. Residential, commercial, and industrial consumption of fracked gas in Maryland generates 13% of all greenhouse gas emissions (2017 Maryland GHG Inventory).

The Maryland Commission on Climate Change recommends that we reduce greenhouse gas pollution by electrifying our buildings, dramatically reducing the demand for methane. Among their 2021 recommendations were: adopting an all-electric building code; encouraging fuel switching to electric water and space heating; targeting 50% of heating ventilation, air conditioning and hot water heater sales to be heat pumps by 2025 and 95% by 2030; creating building emissions performance standards; and developing utility transition plans.

In other words, it is time for Maryland to begin to move away from fossil fuels to heat our homes and buildings. While we are transitioning off fossil fuels, gas utilities can repair gas leaks to make the distribution system safe and reduce methane leaks. Repairs can be done at low cost while we are transitioning off fossil fuels and do not result in long-lived assets. The STRIDE program, in contrast, replaces mains and service lines at a very high cost. As utilities replace gas mains and service lines more rapidly under SB 423, more stranded assets will outlive their useful lives as Maryland tackles climate change.

Much of the new infrastructure put in place under STRIDE will last 35-50 years,[1] well beyond the time when we need to be carbon neutral. As we target net zero GHG pollution in 2045, rate payers will be stuck with the bill for these assets when they no longer serve customers.

Passage of SB 423 will disproportionately impact low and moderate income customers. As other families and businesses shift to low carbon forms of building and water heating, low and moderate income customers will be left with the bill for gas infrastructure. According to the E3 Building Decarbonization Study for the Maryland Climate Commission (page 31), gas rates could quadruple by 2040.

STRIDE has not been meeting its goal of increasing gas distribution safety. BG&E gas leaks have increased since 2011. Gas utilities have not been delivering the planned level of cost or infrastructure replacement. We should not reward the utilities by allowing them to add to the rate base additional uncontrolled spending. With our goal to achieve carbon neutrality by 2045, we should not be investing in assets that will last far beyond that point and burden rate payers, especially low and moderate income households, with ever higher rates.

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[1] Ned Allis testimony on page VI-6 in BG&E rate case 9610.

SB423 _STRIDE Act of 2022_Finance_ HoCoClimateActi
Uploaded by: Ruth White
Position: UNF

HoCoClimateAction.org
Howard County, Maryland

Testimony on SB423 - Natural Gas - Strategic Infrastructure Development and Enhancement - Surcharge and Plans (STRIDE Act of 2022)

Hearing Date: February 15, 2022
Bill Sponsor: Senator Hayes
Committee: Finance
Submitting: Ruth White for Howard County Climate Action
Position: Oppose

HoCo Climate Action -- a 350.org local chapter and a grassroots organization representing more than 1,450 subscribers, strongly opposes SB423 - Natural Gas - Strategic Infrastructure Development and Enhancement - Surcharge and Plans (STRIDE Act of 2022).

This committee is hearing testimony on a bill we strongly support, SB528 the Climate Solutions Act of 2022. As climate activists we are encouraged by its provisions to electrify new buildings and work toward decarbonization of existing buildings, provision inspired by Maryland Commission on Climate Change's Building Transition Report (here and here).

We realize that as more and more buildings in the state are electrified, the use of gas and the need for gas pipelines will decrease. Maryland does not yet have a Public Service Commission process to plan for the gradual reduction of gas usage in Maryland. Some other states have already begun such planning.

Meanwhile, we need a spotlight on the STRIDE program to ensure that the cost and operation of the STRIDE program remains very transparent. Customers pay into the program through a surcharge on their bills and need to know how much that is and how much this program costs. Under SB423, costs would move from the STRIDE surcharge to base rates automatically without any quantitative or qualitative review. Therefore stakeholders could not review Stride costs before they are included in a utility's rate base.

Utilities are collecting a large amount of money over many years. This program has continued unexamined. The utilities claim the STRIDE program is needed for safety, but it is not clear that the vast amount of money collected has made the system more safe. We agree that dangerous leaks should be repaired, but we do not agree every pipe in the state needs to be replaced. We need a process to determine the scale of work needed. The State needs a process to plan for the day in Maryland when the building stock has been decarbonized and the gas distribution system is no longer required.

The Committee should require the Commission to perform a study to quantify and examine the STRIDE program and to assess whether the program should continue or, if continued, whether the program needs to be altered to ensure that ratepayers are benefitting from the program.

One issue to be examined is whether STRIDE actually provides the wrong incentive. Repairing gas infrastructure often is a lower-cost alternative to replacement.

Because STRIDE only allows accelerated cost recovery for capital projects that earn a return, it has further disincentivized utilities from repairing pipes rather than replacing them. Any study should examine this disincentive and determine if the utilities are making unwarranted replacements when repairs would be sufficient and less costly.

Finally, any study should examine how STRIDE shifts the significant risk to ratepayers of substantial climate-induced stranded costs. Reducing gas use in buildings will ultimately lead to a reduction in the gas customer base and a diminished need for the state's gas infrastructure.

"Stranded" gas assets can complicate the effort to transition the state away from excessive reliance on gas and its incompatibility with Maryland climate goals. At the core of these complications are potential reductions in overall utility investment, and rate increases for remaining gas customers.

The STRIDE law should not be permitted to exacerbate this dilemma. Based on Maryland's public policy goals, Maryland should recognize that future investments in new replacement infrastructure is no longer prudent.

We need a study to assess whether STRIDE should continue at all or whether the STRIDE program should be significantly scaled back to avoid excessive stranded costs in the future. Given the building electrification that we advocate for, we must start planning for replacing the entire gas infrastructure by 2040, a year that seems distant but is approaching. In the context of the need for rapid action to meet the Maryland Climate target, we need to rethink the STRIDE program. This bill is a step in the wrong direction.

Howard County Climate Action opposes Senate Bill 423 and requests an unfavorable committee report.

HoCo Climate Action
HoCoClimateAction@gmail.com -
Submitted by Ruth White, Steering and Advocacy Committee, Columbia MD
www.HoCoClimateAction.org

SB 423-AOBA-UNF.pdf
Uploaded by: Ryan Washington
Position: UNF

Bill No: **SB 423— Natural Gas – Strategic Infrastructure Development and Enhancement – Surcharge and Plans (STRIDE Act of 2022)**

Committee: **Finance**

Date: **February 15, 2022**

Position: **Oppose**

The Apartment and Office Building Association of Metropolitan Washington ("AOBA") submits this testimony in **opposition to SB 423.**

SB 423 would amend the current law on the accelerated replacement of aging natural gas infrastructure, how utility companies, including Washington Gas ("the Company") recover their costs, and the regulatory oversight of the STRIDE program by the Public Service Commission ("PSC" or "the Commission").

AOBA's members own or manage approximately 60 million square feet of commercial office space and over 296,000 apartment units in the State of Maryland and receive service from the Washington Gas Light Company ("WGL") under its Group Metered Apartment, Commercial and Industrial and Interruptible rate schedules. AOBA members also receive service from the Potomac Electric Power Company ("Pepco") on several of its commercial rate schedules.

For more than forty-five years, AOBA has activity participated as a party in proceedings before the Public Service Commission ("Commission" or "PSC") involving electric and natural gas energy distribution services representing commercial and multi-family apartment customers of Washington Gas and Pepco. My testimony today in opposition **to SB 423** is based on AOBA's long standing participation in rate cases as well as our participation in STRIDE proceedings in Maryland and the District of Columbia. Further, AOBA's opposition **to SB 423** is based on our recent participation in Pepco proceedings in Maryland and the District of Columbia considering an alternative form of regulation, a Multi-Year Rate Plan (("MYP"), Case No. 9655 in Maryland and Formal Case No. 1156 in the District of Columbia.

Under current law, the STRIDE Program provides several protections for ratepayers. First, the utility surcharge on customer bills is capped at $2.00 per month as a separate line item on residential customer bills. The residential surcharge cap also limits the increases on all commercial and master-metered apartment customers, since the monthly charges are based on the proportions of total distribution revenues for those classes of customers as established in the last base rate case. In other words, the residential STRIDE surcharge cap impacts all commercial and master-metered apartment customers of Washington Gas by limiting and controlling the costs that Washington Gas recovers under the STRIDE program from these ratepayer classes by linking their cap on the STRIDE monthly surcharge to the $2.00 monthly residential cap.

The purpose of the cap is to ensure that ratepayers are not overwhelmed by the costs of utility services provided by Washington Gas, while the Company replaces aging pipeline and timely recovers costs without the need to file multiple rate cases. Secondly, STRIDE surcharge costs can only be placed into base rates after a reconciliation of estimated costs to actual costs and a prudency review by the Commission in a base rate case, important oversight protections for ratepayers.

SB 423 would require that during a multiyear rate plan ("MRP") approved by the Commission, each time during the multiyear rate plan that a gas company's rates are adjusted, eligible STRIDE project costs collected under a STRIDE surcharge shall be included in base rates and the surcharge reset. The surcharge then continues for the following year's eligible infrastructure estimated projects costs. **The effect of SB 423 is to eviscerate the previously established cap for residential users, as well as all classes of customers, and eliminate previously established consumer protections.**

The purpose of an MRP is to permit a utility company to adjust rates within Commission established pre-approved limits without the need for a rate case over a period of three years, while ratepayers receive the benefit of rate certainly and transparency. BGE has a multiyear rate plan (Case No. 9645) in effect and Pepco's proposed MRP was approved by the Commission June 28, 2021 in Case No. 9655 by Order No. 89868. AOBA expects that Washington Gas may file a multiyear rate plan in the relatively near future.

Under **SB 423,** a gas company receives the benefits of an MRP while also being permitted to annually increase STRIDE rates without a Commission reconciliation of estimated costs to actual costs or a prudency review, both of which are now required and are reviewed annually. In short, the current STRIDE consumer protection provisions administered by the Commission, and the rate certainty and transparency under an MRP, would be eliminated. As a result, all ratepayers will experience significant STRIDE rate increases without the benefit of Commission oversight.

AOBA opposes SB 423 because the proposed legislation adversely impacts all Maryland natural gas ratepayers by:

(1) increasing the cost of natural gas utility company replacement of aging infrastructure;

(2) eliminating ratepayer transparency in knowing actual utility costs being recovered

and placing estimated STRIDE costs in base rates before such costs are reconciled to actual costs by the Commission;

(3) authorizing the gas utility company to transfer the cost recovery from the surcharge to inclusion in utility base rates during the period of an approved multiyear rate plan which eliminates the rate certainty and transparency ratepayers expect from such MRP plans;

(4) virtually eliminating the STRIDE laws monthly cap on surcharges for all gas customers by authorizing the gas utility company to transfer cost recovery from the surcharge to inclusion in base rates automatically during the period of an approved multiyear rate plan before a reconciliation of the estimated costs by the PSC and before a PSC prudency review. Further, **when costs are removed from the surcharge and placed into rate base, the STRIDE surcharge is automatically reduced which makes it unlikely that the Company will hit the surcharge cap at anytime during an MRP;** and

(5) exacerbating the adverse impact of the COVID-19 pandemic on residential ratepayers and businesses confronted by ongoing catastrophic health and economic. devastation as mitigation and recovery efforts from the virus continue.

If SB 423 becomes law, natural gas rates for all customers will rise when rates are adjusted during a multiyear rate plan each time rates change, i.e., annually. Rates for all customers will increase when cost recovery for *estimated* STRIDE project costs are automatically transferred from the STRIDE surcharge and included in rate base without the benefit of a base rate case investigation, Commission reconciliation of estimated costs to actual costs or prudency review. And finally, rates will rise when costs are removed from the surcharge automatically each year and put into rate base, and the STRIDE surcharge is reset, it is unlikely that the Company will hit the surcharge cap at any time during an MRP.

Background

PSC Decision in BGE Case No. 9645, Order No. 89678, issued December 16, 2020

SB 423 would require that when utility base rates are adjusted in a multiyear rate plan ("MRP"), the Public Service Commission ("PSC") shall require costs recovered through the surcharge for completed projects be collected in base rates during the MRP period each time the Company's base rates are adjusted during the MRP period and future costs be recovered through the surcharge. As detailed earlier in this testimony, AOBA believes that **SB 423** is not in the best interests of natural gas ratepayers in Maryland and submits that the PSC's December 16, 2020 Order No. 89678 in BGE Case No. 9645 effectively addresses these issues.

There is no evidence that existing STRIDE cost recovery, coupled with the framework adopted by the PSC for investigating an application submitted by a natural gas utility company for approval of a multi-year rate plan, are not sufficient to ensure reasonable and timely STRIDE cost recovery while also balancing the interests of ratepayers in just and reasonable rates.

The PSC has addressed the impact of BGE recovering the costs of complying with COVID-19 mitigation mandates. The PSC authorized BGE to create a regulatory asset to recover the actual incremental costs of compliance with Covid-19 based restrictions. This decision by the PSC ensures that the utility company will timely recover COVID-19 related expenses, net of government assistance, without recovering these costs through adjustments in rate base during the period when a utility company's approved multi-year rate plan is operational. *Order No. 89678* at 20, ¶43.

As the first approved MRP pilot, the PSC's BGE decision is to serve as a template for consideration of all-natural gas company utility MRP applications now and into the future. The PSC discussed the purpose of the STRIDE program and stated:

> The STRIDE statute was enacted for the purpose of accelerating gas infrastructure improvements in Maryland by establishing a mechanism by which gas companies might promptly recover reasonable and prudent costs of investments in eligible infrastructure replacement projects separate from base rate proceedings. Participation in STRIDE requires a gas company to file a plan for infrastructure replacement that specifies the replacement work to be performed, the cost and timeline for that replacement, and customer benefits under the plan. *Order No. 89678* at 26, ¶54.

The PSC determined that:

> By law, the amount of the surcharge 'may not exceed $2 each month on each residential customer account' or a comparable amount for nonresidential customer accounts. Completed STRIDE projects must be removed from the surcharge and transferred into rate base at least every five years, but may only be transferred into rate base during a base rate case." *Order No. 98678* at 26-27, ¶56.

The Commission further fund that:

> …BGE's proposal to place some or all of its STRIDE costs in the MRP lacks transparency. The General Assembly required that the surcharge be visible to customers. Placing STRIDE projects directly into the base rates circumvents that transparency by requiring the Commission to approve advanced recovery of STRIDE projects with no visibility to customers, instead mixing STRIDE costs inextricably with all the other elements of BGE's rates. *Order No. 89678* at 29, ¶60.

AOBA Supports the Reasoning of the PSC in Rejecting the Argument that Including STRIDE Costs in Base Rates During a MRP is Necessary

AOBA supports the reasoning of the Commission in rejecting the BGE argument that including STRIDE project costs in base rates under a multi-year rate plan was necessary. The PSC concluded that the voluntary filing by BGE of an application for approval of a multi-year rate plan carried certain benefits and limitations that the utility can't ignore. According to the PSC,

> BGE's arguments that its STRIDE projects will be worse off than other MRP investments unless it is allowed to account for the projects in its MRP base rates are unavailing. BGE chose to file the MRP and, accordingly, it was aware of the three-year stay out requirement contained in the MRP Pilot Order. The utility cannot take advantage of the benefits of the MRP while simultaneously disavowing its disadvantages. Order No. 89678 at 30, ¶63.

AOBA submits that the three-year stay out provision of the multi-year rate plan discussed in the PSC Order No. 89678 is intended to protect ratepayers from rate increases while ensuring accelerated cost recovery and predicable revenues for the utility company without the requirement of annual applications for rate increases. This tradeoff, which the utility company agrees to accept in return for approval of a multi-year rate plan, should not be eliminated. The predictability and certainty of rates, coupled with the transparency of utility costs during the effective period of a multi-year rate plan, are benefits ratepayers were promised and must continue to receive as benefits.

The Commission decision to Include STRIDE Cost Recovery from Completed Projects into Base Rates <u>Prior t</u>o an Approved MRP Becoming Effective is Appropriate

In lieu of including STRIDE cost recovery from completed projects into base rates during the period of an approved multiyear rate plan, the PSC approved including STRIDE investments into BGE's rate base prior to an approved multi-year rate plan becoming effective. The PSC concluded that:

> The Commission will, however, approve BGE's proposal to place into MRP rates all STRIDE investments through December 31, 2020. This will allow BGE to set the STRIDE surcharge to zero on the first day of its MRP and mitigate the risk that its infrastructure spending will exceed the $2 cap before its next rate case. At a minimum, BGE will have time to make its case to the General Assembly that the cap should be raised before its MRP ends, should it choose to do so. Order No. 89678 at 30, ¶64.

The PSC's decision preserved the expectation of ratepayers for rate certainty and transparency during the term of an approved multi-year rate plan.

<u>Conclusion</u>

AOBA submits that **SB 423** will simply exacerbate the concerns raised and addressed in the PSC's December 16, 2020 Order No. 89678. As the PSC acknowledged, any utility company, including a natural gas utility company, that seeks approval of a multi-year rate plan must accept the benefits and limitations of such plans. For the reasons stated by the PSC in Order No. 89678, and in this testimony, AOBA respectfully opposes the inclusion of STRIDE cost recovery from the surcharge into base rates during the period of time when an approved multi-year rate plan is in effect.

AOBA requests an unfavorable report on SB 423.

For further information contact Ryan Washington, AOBA Government Affairs Manager, Maryland, at 410-424-0248 or RWashington@aoba-metro.org, or
Frann Francis, AOBA Senior Vice President and General Counsel, at 202-296-3390 Ext. 766 or FFrancis@aoba-metro.org.

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February 16, 2022

To: The Honorable Delores G. Kelley
Chair, Finance Committee

From: Steven M. Sakamoto-Wengel
Consumer Protection Counsel for Regulation, Legislation and Policy

Re: Senate Bill 423 – Natural Gas - Strategic Infrastructure Development and Enhancement - Surcharge and Plans (STRIDE Act of 2022) (OPPOSE)

The Consumer Protection Division of the Office of the Attorney General opposes Senate Bill 423, sponsored by Senator Hayes, which would result in increased utility costs for Maryland consumers. The Strategic Infrastructure Development and Enhancement ("STRIDE") law established an application and review process for gas infrastructure replacement plans with an associated monthly surcharge on customer bills. The surcharge is collected at the same time as the eligible infrastructure expenditures occur. The fixed annual surcharge may not exceed $2 per month for each residential natural gas customer. However, Senate Bill 423 would allow utilities to more easily move costs currently being recouped through the surcharge into the utilities' base rates, thus allowing the utilities to free up space in the surcharge cap for additional charges.

Historically, when a utility moves STRIDE plant surcharges into base rates in a base rate case, the costs are first reviewed for prudency by the Commission. As such, they take on a different status. They are no longer "eligible infrastructure project costs collected previously under a surcharge." They are instead considered prudently incurred historic capital costs. Under Senate Bill 423, no prudency review would occur. The costs would move from the STRIDE surcharge to base rates automatically without any qualitative review.

The Division is concerned that Senate Bill 423 will negatively impact already-strapped Maryland utility customers by:

- Eliminating transparency surrounding current STRIDE investments -- under this bill, the surcharge will only show current year's projected spending;
- Diminishing the value of the cap, an important consumer protection; and
- Eliminating the ability of parties to oppose the inclusion of an investment in rate base on prudency grounds.

Accordingly, the Consumer Protection Division believes that Senate Bill 423 will increase utility costs for Maryland consumers without providing adequate opportunity for review of whether those increased charges are justified and respectfully requests that the Senate Finance Committee return an unfavorable report.

cc: The Honorable Antonio Hayes
Members, Finance Committee

Opposition Letter SB 423 Final.pdf
Uploaded by: Susan Miller
Position: UNF

EARTHJUSTICE

February 15, 2022

Chair Delores G. Kelley
Members of the Senate Finance Committee

Re: **Opposition** to SB 423:
Natural Gas - Strategic Infrastructure Development and Enhancement - Surcharge and Plans (STRIDE Act of 2022)

Earthjustice,[1] the Chesapeake Climate Action Network Action Fund, and the Climate Justice Wing of the Maryland Legislative Coalition strongly oppose the passage of SB 423 and urge an unfavorable report by this Committee. SB 423 would remove a vital ratepayer protection by requiring infrastructure project costs collected under a gas infrastructure replacement surcharge to be included in base rates as part of rate adjustments made yearly under a multi-year rate plan (MRP) rather than having the prudency of these expenditures review by the Public Service Commission (Commission) in a base rate case prior to those costs being recoverable through rates. The process proposed by SB 423 differs greatly from the process set forth in the current STRIDE law, which provides only that a utility may move "eligible infrastructure project costs" into base rates after appropriate review in a base rate case. A prudency review is an important ratepayer protection which this Committee should preserve.

Overview of STRIDE Law

In 2013, the General Assembly enacted the STRIDE law to incentivize the replacement of aging gas distribution infrastructure by providing gas distribution utilities with advance recovery of the costs of the replacement projects through a surcharge mechanism for gas distribution utilities to promptly recover *reasonable and prudent* costs of investments in these projects separate from base rate proceedings.

The STRIDE law permits gas distribution utilities[2] to submit 5-year infrastructure replacement plans to the Commission. Specifically, the STRIDE law allows utilities to include a monthly surcharge on customer bills to recover the estimated costs of such projects contemporaneously with, or even before, the execution of the projects. The amount of the monthly surcharge for a given calendar year is based on the work planned in that year and its estimated cost and is capped at $2.00/month on residential customer bills.

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[1] Earthjustice is a non-profit public interest environmental law organization that represents other non-profits free of charge. Earthjustice uses the power of law and the strength of partnerships to advance clean energy, combat climate change, protect people's health and preserve magnificent places and wildlife.

[2] Three Maryland gas distribution utilities have gas infrastructure replacement plans under STRIDE – Baltimore Gas and Electric Company (BGE), Washington Gas Light Company (Washington Gas), and Columbia Gas of Maryland, Inc. (Columbia).

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If a gas distribution utility reaches the $2.00 surcharge cap, that does not mean that the utility will be unable to recover the costs of its gas infrastructure replacement investments. Rather, for those costs above the cap, the gas distribution utility must wait until its next base rate case to begin recovering them. The current STRIDE law provides that within five years of the implementation of a STRIDE plan, a utility must file a base rate case. When a gas distribution utility with a STRIDE plan files a base rate case, all the STRIDE investments included in the STRIDE surcharge are reviewed for prudency. If the Commission determines that the investments were prudent, the costs are moved out of the surcharge and into the utility's rate base. This movement of costs from the surcharge to rate base has the effect of reducing the STRIDE surcharge, which makes it less likely that a STRIDE utility will hit the surcharge caps.

SB 423 Ends an Important Ratepayer Protection and Greatly Limits the Transparency of the STRIDE program.

When the Commission approves a multi-year rate plan, it approves up to three years of rates, with the rate levels increasing after each year to reflect projected increased utility spending. SB 423 would *automatically* move all a utility's STRIDE gas infrastructure spending from the STRIDE surcharge to base rates whenever rates change within an MRP (essentially each year).

Currently, when a utility moves STRIDE infrastructure investments into base rates in a base rate case, the costs are first reviewed for prudency by the Commission. The STRIDE law provides that within five years of the implementation of a STRIDE plan, a utility must file a base rate case. In a base rate case, all a utility's costs and expenses are reviewed. When a utility with a STRIDE plan files a base rate case, all the STRIDE investments included in the STRIDE surcharge are reviewed for prudency. If the Commission determines that the investments were prudent, the costs are moved out of the surcharge and into the utility's rate base. If the Commission finds that a project was imprudent, cost recovery for that project is denied. As such, the *approved* project costs are now prudently incurred capital costs. Under SB 423, no prudency review would occur prior to the costs inclusion in base rates. The costs would move from the STRIDE surcharge to base rates automatically without any quantitative or qualitative review. SB 423 would deprive stakeholders of their only opportunity to review STRIDE costs before they are included in a utility's rate base.

SB 423 also negates the transparency which is so vital to a program of this nature. An important feature of the STRIDE law is the transparency it provides to customers with respect to how much they are paying for the program. This transparency is promoted through the surcharge. The surcharge informs consumers of the utility's specific expenditures for gas distribution infrastructure replacements.

Importantly, this Committee should note that BGE recently requested that the Commission permit yearly recovery of BGE's STRIDE costs above the surcharge BGE's recently approved MRP. Specifically, BGE sought to include all STRIDE costs up to the cap in the surcharge, but then recover any amounts over the cap through base rates during the MRP adjustment. The Commission rejected this proposal on the basis that it lacked transparency. In reaching this conclusion, the Commission expressly stated that "Placing STRIDE projects directly into the base rate circumvents that transparency by requiring the Commission to approve advanced recovery of STRIDE projects with no visibility to customers, instead mixing STRIDE costs inextricably with all the other elements of BGE's rates."[3] If infrastructure project costs are annually moved from the surcharge to base rates, this action will hide the total amount of STRIDE costs in rates and make it far less clear to customers how much they were paying for STRIDE projects. SB 423 removes the transparency that the STRIDE surcharge provides. Moreover, the effect of this yearly removal of infrastructure project costs out of the surcharge will be that a utility will be able to collect STRIDE charges in excess of the cap from customers, through a combination of the surcharge and base rates.

REVIEW OF STRIDE

While STRIDE's infrastructure replacement incentive mechanism has been used in Maryland for approximately seven years, the impact of the STRIDE law has never been assessed. Any alteration of the program should not occur without a thorough review of the effects the STRIDE program has had in the years since its adoption and an assessment regarding whether the program should continue.

The Committee should bear in mind that utilities have a core responsibility of ensuring the safety and reliability of their infrastructure. The Stride program is not a safety and reliability program. STRIDE did not alter the utilities safety or reliability obligations in any respect. The STRIDE law is merely a cost recovery mechanism. To the extent any utility identifies high risk infrastructure for replacement, the utility has a legal obligation to prioritize and replace that infrastructure and the company may seek recovery for such work in its next base rate case. Speedy recovery of costs should not be permitted to determine if or when a necessary infrastructure project is executed and completed. Moreover, the fact that the utilities' current infrastructure replacement plans extend nearly 20 years belies any contention that safety concerns are the drivers of their replacement effort.

The Committee also should be aware of the magnitude of the costs associated with this infrastructure replacement program. For example. in 2018, BGE received Commission approval to spend more than $720 million in infrastructure replacement over a five year period.

Rather than give SB 423 a favorable report, the Committee should require the Commission to perform a study to quantify and examine the STRIDE program and to assess whether the program should continue or, if continued, whether the program needs to altered to ensure that ratepayers are benefitting from the program.

One issue to be examined is whether STRIDE actually provides the wrong incentive. Repairing gas infrastructure often is a lower-cost alternative to replacement. But repairing infrastructure is not profitable for the utilities, because repairs are operational costs, not capital investments on which utilities earn a profit. Because STRIDE only allows accelerated cost

[3] Maryland Public Service Commission Order 89678 (Case No. 9645) Application of Baltimore Gas and Electric Company for an Electric and Gas Multi-Year Plan (December 16, 2020) at ¶ 60.

recovery for capital projects that earn a return, it has further disincentivized utilities from repairing pipes rather than replacing them. Any study should examine this disincentive and determine if the utilities are making unwarranted replacements when repairs would be sufficient and less costly.

Finally, any study should examine how STRIDE shifts the significant risk to ratepayers of substantial climate-induced stranded costs.

In order to address the greenhouse gas (GHG) emissions crisis, the Maryland General Assembly passed the Greenhouse Gas Emissions Reduction Act (GGRA) of 2016. This law renewed the 2009 Maryland law that set a goal to reduce climate-polluting GHG emissions statewide by 25 percent by 2020. The 2016 reauthorization bill also further extended the goal to a 40 percent reduction by 2030, requiring long-term cuts in GHG emissions.[4]

To help the State achieve these goals, the Maryland Department of the Environment (MDE) was required to adopt plans for the 2020 and 2030 greenhouse goals.[5] The plans were to be "developed in recognition of the finding by the Intergovernmental Panel on Climate Change that developed countries will need to reduce greenhouse gas emissions by between 80% and 95% from 1990 levels by 2050."[6] MDE recognized the need to move away from GHG emitting fuels in its 2019 Greenhouse Gas Reduction Act Draft Plan**.** In this plan, MDE proposed "to begin incentivizing increased deployment of efficient electric heat pumps to heat homes in Maryland, including in homes that currently use a different fuel for heat, in order to improve the efficiency of residential heating systems, and to transition the energy source for home heating toward increasingly clean electricity."[7] In the final Greenhouse Gas Reduction Plan, MDE proposes that Maryland begin incentivizing increased deployment of efficient electric heat pumps to heat homes and businesses, including in buildings that currently use a different fuel for heat to transition the energy source for building heating to increasingly clean electricity.[8]

Maryland has established GHG emissions reduction goals and MDE has proposed regulatory strategies for reducing climate pollution from the energy sector. As evidenced by MDE's new state energy policy plans building electrification – or converting energy end uses in buildings from fossil fuels to cleaner electricity – is a core strategy to achieve Maryland's GHG emissions reduction targets.

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[4] S.B. 323, Ch. 11 (Md. 2016), https://perma.cc/PG8T-T94Y.
[5] Md. Code, Env't § 2-1205(c) (2020).
[6] *Id*. It should be noted that under the Commission's new statutory mandate the Commission is required to consider the "preservation of environmental quality, including protection of the global climate from continued short-term and long-term warming based on the best available scientific information recognized by the Intergovernmental Panel on Climate Change" Md. Code, Pub. Util. § 2-113 (a)(2)(v) (2021).
[7] MDE,*GGRA: 2019 GGRA Draft Plan*, at VI (Oct. 2019), https://perma.cc/8T9N-YRDT.
[8] MDE, *GGRA: 2030 GGRA Plan* (Feb. 19, 2021), https://perma.cc/9JJ5-ZTUG ("2030 GGRA Plan") at 52..

Gas infrastructure replacements will be added to the utilities' rate base, where all ratepayers will continue to pay off this investment for approximately the next 40 years. Reducing gas use in buildings will ultimately lead to a reduction in the gas customer base and a diminished need for the state's gas infrastructure. Aside from the emissions benefits from reduced gas consumption, there are several financial implications to the reduction, including the risk that some gas assets will no longer be "used and useful". If not addressed proactively, "stranded" gas assets can complicate the effort to transition the state away from excessive reliance on gas and its incompatibility with Maryland climate goals. At the core of these complications are potential reductions in overall utility investment, and rate increases for remaining gas customers.

The STRIDE law should not permitted to exacerbate this dilemma. Based on Maryland's public policy goals, Maryland should recognize that future investments in new replacement infrastructure is no longer be prudent. Any study should examine whether STRIDE should continue at all or whether the SIRIDE program should be significantly scaled back to avoid excessive stranded costs in the future. Alternatives to replacing the entire gas infrastructure, such as beneficial electrification, have yet to be considered and should be examined in any study of STRIDE.

Earthjustice, the Chesapeake Climate Action Network Action Fund, and the Climate Justice Wing of the Maryland Legislative Coalition oppose Senate Bill 423 and request an unfavorable committee report.

Thank you in advance for your support. Should you have any questions, please contact me at smiller@earthjustice.org.

Respectfully submitted,

Susan Stevens Miller

Susan Stevens Miller
Senior Attorney, Clean Energy Program
Earthjustice

SB 423 STRIDE Act of 2022.pdf
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Position: UNF

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SB 423 Natural Gas - Strategic Infrastructure Development and Enhancement - Surcharge and Plans (STRIDE Act of 2022)
UNFAVORABLE
Senate Finance Committee
February 15th, 2022

Good Afternoon Chair Kelley and members of the Senate Finance Committee. I am Tammy Bresnahan, Director Advocacy AARP MD. AARP MD and its over 850,000 members **respectfully oppose SB 423** Natural Gas Strategic Infrastructure Development and Enhancement Surcharge and Plans.

SB 423 requires eligible infrastructure project costs collected under a gas infrastructure replacement surcharge to automatically move into the residential 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. One key utility customer protection, the monthly surcharge affords the PSC to have the ability for the PSC to review the STRIDE expenditures during rate cases.

SB 423 appears to eliminate this oversight entirely and simply push up the cash collection for STRIDE charges with no regulatory ability for parties to review what costs are being transferred into the rate base.

As you know AARP Maryland has opposed STRIDE for years. To date, around $1.5 billion STRIDE projects has been approved by the PSC. Residential gas distribution rates have already climbed in a few short years.

We believe SB 423 will:

- Eliminate financial transparency and PSC oversight surrounding current STRIDE investments and will only show current year's projected spending; and
- Diminish the surcharge's consumer protection value, which was established by the General Assembly.

Home energy costs make up a sizable portion of household budgets. In Maryland, 41% of the 400,000 low-income households are older adults 60 and older. Since the pandemic, residential prices for natural gas, electricity, and fuel oil have increased significantly.

About one out of four cases, low-income older households whose income is less than $16,000 a year devote 15 percent or more of their income to home energy bills. Too often low-income seniors face heat and eat decisions, even in Maryland.

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 supply, transmission, distribution costs, and accelerated depreciation expenses fair and equitable. 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.

Most importantly if policymakers allow a utility to recover a portion of its expenditures via a surcharge, 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 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 provides.
- A surcharge 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 SB 423. If you have questions, please contact Tammy Bresnahan at tbresnahan@aarp.org or by calling 410-302-8451.

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STATE OF MARYLAND

PUBLIC SERVICE COMMISSION

February 15, 2022

Chair Delores Kelley
Senate Finance Committee
3 East, Miller Senate Office Building
Annapolis, MD 21401

RE: SB 423 – INFORMATION – Natural Gas – Strategic Infrastructure Development and Enhancement – Surcharge and Plans

Dear Chair Kelley and Committee Members:

I have reviewed Senate Bill 423 and provide the information below for the Committee's consideration. In 2013, the Maryland General Assembly enacted SB 8/HB 89 ("STRIDE Legislation" or "STRIDE"), allowing gas companies to recover costs for infrastructure replacement projects through a separate surcharge on customer bills, with a cap of $2.00 per month. Subsequently, four gas companies have filed plans with the Maryland Public Service Commission for approval: Baltimore Gas and Electric Company ("BGE"), Washington Gas Light Company ("WGL"), Columbia Gas of Maryland Inc. ("Columbia"), and Elkton Gas Company ("Elkton"). Since the passage of the 2013 legislation, the Commission has approved two five-year plans for each of BGE, WGL, and Columbia; the second plans are ongoing. The Commission also approved Elkton's first five-year STRIDE plan on September 4, 2021.

In 2020, BGE filed the first Multi-Year Rate Plan as the pilot utility under the Commission's Alternative Forms of Ratemaking proceeding. The MRP Pilot Order contains a mandatory stay-out provision, which provides that any utility that files an MRP will be prohibited from filing another base rate case for the three-year duration of the plan. The Commission contemplated whether the intent of the STRIDE law was for the STRIDE surcharge to be a form of alternative ratemaking since historical test years were still the basis of most rate cases at the time the legislation was passed. Proposals in the case included several various approaches to shifting STRIDE spending during the five-year plan into rate base, including only at the beginning and end of the three-year-rate plan, continuously throughout the plan, or only through base rates.

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In interpreting the relevant statutes, the Commission authorized the shifting of STRIDE spending through the end of 2020 into rate base but left the STRIDE statute to continue controlling the existing filed spending plan that lasts for a total of five years. In doing this, the Commission respected STRIDE's statutory cap on recovery and the statutory requirement that spending can only be transferred to rate base during a full rate proceeding.[1] The Commission stated, "It is not clear that the General Assembly intended that a utility could put an unlimited amount of gas infrastructure costs on ratepayers through a forecasted, alternative ratemaking mechanism. Ultimately, when the General Assembly crafted such a mechanism—with STRIDE—it imposed a strict surcharge cap."[2] The Commission further found that the proposal to place STRIDE costs in the MRP could impact the transparency that the General Assembly required by making the surcharge visible to customers. SB 423 will provide clarity that costs from a five-year STRIDE plan can be shifted on an annual basis during a multi-year rate case, thereby reducing regulatory lag.

Thank you for the opportunity to provide informational testimony regarding SB 423. Please contact my Director of Legislative Affairs, Lisa Smith, at 410-336-6288 if you have any questions.

Sincerely,

Jason M. Stanek
Chairman

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[1] Order No. 89678, *In re Application of Baltimore Gas and Electric Company for an Electric and Gas Multi-Year Plan*, Case No. 9645, Paragraph 57, p. 27; *Public Utility Article,* § 4-210(g)(1)(ii)(2).
[2] *Ibid.,* Para. 58.