Maryland Energy Administration

TO:	Members, Senate Education, Energy, and the Environment Committee
FROM:	Paul Pinsky - Director, MEA
SUBJECT:	SB 689 - Public Utilities - Energy Efficiency and Greenhouse Gas Emissions Reductions - Alterations and Requirements
DATE:	February 28, 2023

MEA Position: Letter of Information

The Climate Now Act of 2022 (CSNA) already provided the means by which to achieve the goals this new legislation strives to achieve, and provided targets that set a minimum performance level to ensure that Maryland meets those goals. CSNA provided that, "The core objective of the [EmPOWER Program] shall include development and implementation of mutually reinforcing goals, including greenhouse gas emission reduction, energy savings, net customer benefits, and reaching underserved customers." CSNA also provided specific energy consumption reduction requirements that necessarily incorporate the associated environmental benefits of those reductions.

Senate Bill 689 makes significant alterations to the Maryland EmPOWER Program. The EmPOWER Program was originally designed to reduce peak electricity demand within the State in order to make Maryland's electrical grid more reliable and resilient through energy efficiency. It was, and is, generally a success.

Senate Bill 689 would alter the EmPOWER program to additionally focus on greenhouse gas (GHG) emissions reductions. The Maryland Energy Administration (MEA) strongly supports fuel switching as a mechanism that can assist with the State's energy and GHG reduction goals. However, it should be noted that investments in transmission and distribution assets to accommodate growth in demand and peak load will be needed to maintain current levels of reliability and resiliency of the electricity grid, as this bill would likely increase electrification, overall demand, and peak demand.

MEA notes the following sections of the bill, and the potential challenges those sections present for the EmPOWER Program and the State.

Subparagraph 7-211(g)(3)(i)

This subparagraph requires the reduction of GHG emissions from each ratepayer class resulting from the direct consumption of electricity and natural gas by at least 2% below the 2016 level each year and a cumulative impact of at least 14% by 2031.

The cost implication of such a goal is unknown. **It is crucial that goals are achievable, and that they do not place unreasonable burdens on ratepayers**. The EmPOWER program already has an unamortized balance approaching $1 billion. In addition, the goal requires a 2% percentage reduction for every ratepayer class as opposed to an overall 2% reduction goal. This could also have additional cost implications.

Subparagraph 7-211(g)(3)(ii)

The bill limits certain utilities, requiring that they achieve the new specified goals of the program through building-shell improvements and fuel switching, and that energy efficiency in the form of certain equipment replacements would not count towards EmPOWER goals.

MEA strongly supports the promotion of beneficial fuel switching within EmPOWER, but disallowing any support whatsoever for gas appliance energy efficiency removes some of the low-hanging fruits that could contribute towards GHG reduction and introduces measures that will likely increase the overall expense of the program. This could contribute to an overall higher EmPOWER surcharge.

The challenges of this subparagraph are amplified by 7–211.1(d) that terminates incentives for *any* GHG-emitting appliances. Ending incentives for high-efficiency gas equipment could drive residents to opt for cheaper, lower-efficiency gas equipment since these equipment are still for sale in the State and in nearby neighboring states. MEA supports promoting and favoring electrification in most instances, but energy efficiency remains a useful and cost-effective tool to assist our state in reaching its energy and greenhouse gas reduction goals, especially as it applies to low-to-moderate income (LMI) ratepayers.

Paragraph 7–211.1.(c)(1)

Within this paragraph, the bill states that the Department of Housing and Community Development (DHCD) should promote fuel switching from gas to electricity within the EmPOWER programming they offer.

Given that DHCD provides programs for low-income families, any program is only beneficial if it reduces the energy burden of the beneficiary. This is impossible in all cases relating to fuel switching, especially gas to electricity. There might be a need to make an edit to the bill here to reflect that. One such option is to **limit the promotion of fuel switching to instances that will provide a reduction in life-cycle societal cost to the ratepayer**.

Subparagraph 7-211.1(c)(2)(ii)

It is crucial that the State efforts incorporate the structure of anticipated federal programs to maximize the benefits of both State and federal programs. Prescribing federal rebate amounts absent explicit guidance from the U.S. Department of Energy is premature. **This runs the risk of conflicting with the requirements of the federal programs under the Inflation Reduction Ac**t. Promoting the federal incentives broadly is an appropriate course of action at this time.

Conclusion:

This bill carries with it significant policy implications for the State. **The legislation could help the push towards electrification as required by state policy, but it is likely to come at a significant cost to ratepayers**. A significant investment would be needed to make older and multi-family homes ready to transition to electricity-only. The incentive amount of $2,000 for low-income residents is likely insufficient to effectively encourage homes to make that transition. The alternative is low-efficient gas equipment if electrification is prohibitively expensive and there are no incentives for higher efficiency gas equipment.

Additionally, the Future EmPOWER Programming Workgroup has been working toward policy changes that are somewhat similar to those in this bill. However, the goal set here differs substantially from what was agreed upon in the Future EmPOWER Programming Workgroup, where the consensus was to pursue <u>*life cycle*</u> GHG reduction goals. (*Emphasis added*)

Finally, there will be economic impacts on individuals, LMIhouseholds, and businesses large and small. The cost of EmPOWER programs are expected to significantly increase, therefore so must the EmPOWER budget for utilities, and the surcharge for individuals (including LMI individuals), businesses, and all ratepayers.

MEA urges the committee to consider the forgoing prior to rendering its report.