



Maryland Energy Administration

TO: Chair Feldman, Vice Chair Kagan, and members of the Senate Education, Energy, and the Environment Committee

FROM: MEA

SUBJECT: SB 570 - Public Utilities - Thermal Energy Network Systems - Authorization and Establishment (Working for Accessible Renewable Maryland Thermal Heat (WARMTH) Act)

DATE: February 29, 2024

MEA Position: FAVORABLE WITH AMENDMENTS

This bill would require each gas company to propose a pilot geothermal energy network system that would provide certain residences, especially those in low to moderate income (LMI) neighborhoods, with a highly efficient, low cost heating and cooling system and appliances.

MEA has amendments to the bill as introduced, and to the proposed sponsor amendments, both detailed below.

- As introduced, MEA would like a \$3 million cap on total behind the meter costs for the reasons detailed below.
- On the proposed sponsor amendments, MEA would like to make sure that any unallocated federal money reserved under the IRA can be re-allocated before the money expires.

MEA supports networked geothermal as one way to help Marylanders electrify their homes and buildings and meet the state's urgent greenhouse gas goals. Unlike networked geothermal pilot projects by Eversource and National Grid in Massachusetts, which are completely funded by utility ratepayers, the Maryland pilot would task the State (MEA) with helping to consolidate state and federal resources to subsidize all behind-the-meter costs.

To the extent that the Strategic Energy Investment Fund or "SEIF" is used to fund the program in the future, it is likely that that expenditure will have a limiting effect on other MEA programs.

I. MEA has five amendments to the bill as introduced.

1. On p. 11, lines 10-19, cap total behind-the-meter costs at \$3 million. Federal rebates under the Inflation Reduction Act can provide a maximum of \$12,400 for low- to moderate income (LMI) households. Under recent guidance from the I.R.S., the federal Investment Tax Credit may not be available for a project that is owned jointly by a utility and a property owner. Federal rebates will likely cover less than half of the total behind-the-meter costs for heat pumps, water heaters, panel and electric

upgrades, installation, appliance replacement, project management, and other construction costs. Costs incurred by the Maryland Environmental Service (MES) to administer the contracts do not appear to be addressed in the bill, raising the question of whether MEA will be expected to shoulder those costs as well. MEA needs to budget with certainty.

2. Delete mention of \$12 million on p. 11, line 22, such that it reads: “THE ADMINISTRATION SHALL RESERVE ~~\$12,000,000 OF~~ FEDERAL FUNDING FROM THE U.S. DEPARTMENT OF ENERGY [.] As written here, a pilot with \$12M of federal funding could include at least 950 homes (assuming a maximum of \$12,400 per rebate per home). MEA would be responsible for the remaining behind-the-meter program costs, which could exceed \$20 million.

3. Older appliances. Consider adding to the PSC criteria a requirement that the utilities choose a pilot where many of the homes have appliances that are at or near the end of their useful lives.

4. Discontinuation. Consider on P. 9 inserting in subsection D a provision to protect customers in the event a pilot is discontinued such as (3) IN THE EVENT A PILOT SYSTEM IS DECOMMISSIONED OR DISCONTINUED BEFORE THE END OF THE USEFUL LIFE OF THE APPLIANCES INSTALLED UNDER THIS SUBTITLE, THE COMMISSION SHALL MAKE SURE THAT CUSTOMERS PARTICIPATING IN A PILOT SYSTEM DO NOT INCUR ADDITIONAL EXPENSES RELATED TO DECOMMISSIONING OR INSTALLING NEW APPLIANCES.

5. Community-based organization funding. Please add “or any other state or federal funding source” to the provision on p. 10, line 26.

II. MEA Amendments on Utility Ownership, as proposed by the sponsor.

MEA understands there are sponsor amendments in which the utility assumes responsibility and (at least preliminary) ownership of the behind-the-meter geothermal HVAC system and associated equipment, but not appliances. MEA is concerned about setting a precedent for utility ownership of behind-the-meter appliances and HVAC systems. Nonetheless, MEA recognizes that temporary utility ownership of geothermal HVAC systems in this particular pilot would allow Marylanders to take advantage of new and time-limited federal funding. This is a narrow set of circumstances that should have no precedential value.

A utility-ownership model could allow Marylanders to benefit from the Business Energy Investment Tax Credit (ITC). Under recent guidance from the I.R.S., the ITC –which would cover 30% or more of total project costs)– may not be available for a geothermal project that is owned jointly by a

utility and a property owner, as proposed here.¹ That, ultimately, could be advantageous to ratepayers as long as utilities do not overcollect on program expenses.

With the proposed sponsor amendments, the utility would be responsible for the procurement and installation of the ground source heat pumps, associated electric panel upgrades, wiring, installation fees, demolition, general contractor fees, contingency, and possibly the water heater/boiler. A portion of those costs could be covered by the ITC, which would also apply to front-of-the-meter costs such as installing the below-the-ground pipes and geothermal loop outside of the building(s). To the extent allowed by federal law, MEA may be able to use federal IRA rebate money to help subsidize costs not covered by the ITC (such as electric stoves and dryers), or duplicative costs such as the hot water heater.

In case the pilot project fails to materialize or is not eligible to receive IRA funds, **MEA must be able to re-allocate any unspent IRA funds to other Marylanders before the federal deadline.**

I. MEA proposes three amendments on the utility-ownership model, in the sponsor amendments.

1. P. 11 FUNDS RESERVED UNDER SUBPARAGRAPH (I) OF THIS PARAGRAPH SHALL BE COMMITTED TO AN APPROVED PROJECT NOT LATER THAN DECEMBER 31, 2026, AND ALLOCATED NOT LATER THAN DECEMBER 31, 2029, AND SPENT NO LATER THAN DECEMBER 31, 2031 2029.

2. p. 12 A utility shall...PURSUE ALL TAX CREDITS AND FEDERAL FUNDING AVAILABLE FOR BEHIND-THE-METER AND FRONT-OF-THE-METER PROJECTS.

3. ANY REMAINING AFTER ALL FUNDS AND TAX CREDITS AVAILABLE UNDER SUBSECTION (B) OF THIS SECTION HAVE BEEN APPLIED MAY BE RECOVERED THROUGH RATE ADJUSTMENTS OR ANOTHER MECHANISM APPROVED BY THE COMMISSION. THIS SECTION MAY HAVE NO PRECEDENTIAL VALUE IN FUTURE UTILITY REGULATORY PROCEEDINGS.

MEA urges the committee to issue a **favorable report as amended.**

Our sincere thanks for your consideration of this testimony. For questions or additional information, please contact Joyce Lombardi at joyce.lombardi1@maryland.gov or 443.401.1081.

¹ U.S. Treasury Guidance on Section 48 of the Internal Revenue Code, (Nov. 17, 2023) available at <https://www.federalregister.gov/d/2023-25539/p-376> (specifically excluding a project in which there is different ownership of a geothermal underground loop and a geothermal heat pump system). See, also Proceeding on Motion of the Commission to Implement the Requirements of the Utility Thermal Energy Network and Jobs Act, Rochester Gas and Electric, New York Public Service Department, Case 22-M-0429 (December 2023)(mentioning ITC guidance as reason for initial utility ownership of HVAC system and underground loop during networked geothermal pilot, p. 55).