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PUBLIC SERVICE COMMISSION

February 4, 2025

Chair C.T. Wilson
Economic Matters Committee
Room 231 House Office Building
Annapolis, MD 21401

RE: HB 419 – Favorable with Amendments - Natural Gas - Strategic Infrastructure Development and Enhancement (Ratepayer Protection Act)

Dear Chair Wilson and Committee Members:

The Public Service Commission (the Commission) requests a favorable report for bill HB 419 with amendments to better align the ability of gas utilities to be permitted cost recovery treatment by requiring a more explicit demonstration that the utilities have considered alternatives to gas infrastructure investments while supporting climate goals and improving safety and reliability. The Commission proposed amendments will align the proposed legislation with recent Commission orders while retaining flexibility for certain policy determinations to be made outside of STRIDE proceedings. The Commission has reached out to the sponsor regarding potential amendments and looks forward to the opportunity to work with the Legislature on the proposed legislation.

Strategic Infrastructure Development and Enhancement (STRIDE) is a financial instrument that provides an incentive to gas utilities to replace pipes subject to certain goals. The current goal of STRIDE is to accelerate replacement of infrastructure that is considered risky from a safety/reliability and leak perspective. Since the original enactment of the STRIDE rate mechanism some years ago, the economic and environmental factors have changed with natural gas. It is appropriate for the General Assembly to revise the applicability of the STRIDE mechanism to focus the rate recovery for investments directly related to the safety of the existing gas distribution infrastructure and leak prevention. HB 419 amends the goal of STRIDE to align both improving safety/reliability and meeting the State's climate goals. In addition to safety and State climate policy, the Commission must also consider the availability of natural gas alternatives when approving a STRIDE plan. HB 419 also requires additional analysis within a proposed STRIDE plan, such as consideration of alternatives to replacement of pipe and retirement/abandonment of the gas system in conjunction with electrification. Taken together these modifications may reduce the infrastructure eligible for the STRIDE financial incentive. If a gas utility views implementation of a STRIDE program under this law as burdensome, they can choose not to use the STRIDE mechanism and do the work without the financial incentive afforded by STRIDE. In recent Orders, the Commission has stated that gas companies should consider contraction in gas consumption and cost-effective non-pipeline alternatives when planning infrastructure work.

The first amendment the Commission offers is to either reduce or allow for Commission discretion in determining the length of advanced customer notification for a customer to electrify if they so choose (PUA 4-210 (d)(2)(VII)). The proposed two-year notice period for customers to consider electrification may be inefficient for utilities. The Commission has in recent STRIDE cases required such notifications from utilities, but only 180 days in advance. The legislature should consider if a shorter period would still afford customers an appropriate amount of time to consider and implement electrification measures while also allowing the utilities to conduct their work efficiently.

The Commission suggests the legislature consider if it is appropriate to incorporate the following policies as explicit requirements into STRIDE at this time. These are related to electrification (PUA 4-210 (d)(2)(VI)) and alternative fuels (PUA 4-210(e)(3)(v)).

The legislature should consider if STRIDE is the appropriate venue to obligate the gas utility to actively assist with electrification. HB 419 requires a utility STRIDE plan to provide analysis that considers retirement or replacement of portions of the gas system in conjunction with electrification, which may not be in the business interest of the company. Additionally, it is unclear how a gas only utility would have the appropriate information to develop and estimate the cost of an electrification plan with accuracy. This may require the coordination of information between the utilities by the Commission or for the electric company to volunteer this information.

Finally, HB 419 adds a new requirement for the Commission to find that the STRIDE plan is consistent with the availability and cost-effectiveness of natural gas alternatives. STRIDE is an infrastructure program, not a gas supply program. If customers continue to use natural gas, regardless of alternatives, then some form of the gas system will still have to exist. Also, making this determination within a time limited STRIDE case may be challenging and better suited for a broader consideration of alternative fuels to meet gas demand for all gas utility planning and associated infrastructure. Also, this requirement may be duplicative since the Commission already must consider the State's climate policy when approving a STRIDE plan.

The Commission has an active docket, Case No. 9707, where the above concepts and others will be explored regarding the future of natural gas utilities. It is the intent of the Commission to look at these concepts holistically in this proceeding.

The Public Service Commission appreciates the opportunity to provide testimony for your consideration for bill HB 419. We request a favorable report with support for the amendments detailed above. We look forward to working with the sponsor on any recommended changes. Please contact Christina Ochoa, Director of Legislative Affairs at christina.ochoa1@maryland.gov if you have any questions.

Sincerely,



Frederick H. Hoover, Chair
Maryland Public Service Commission