



1000 Maine Avenue, SW | Suite 700 | Washington, DC 20024 | www.washingtongas.com

COMMITTEE: ECONOMIC MATTERS

TESTIMONY ON: HB516 – CLIMATE CRISIS AND ENVIRONMENTAL JUSTICE ACT OF 2024

POSITION: OPPOSE

HEARING DATE: FEBRUARY 29, 2024

Washington Gas respectfully submits this statement in **OPPOSITION** to **House Bill 516 – Climate Crisis and Environmental Justice Act of 2024**

Washington Gas (“the Company”) was founded in 1848 by Congressional Charter and is marking its 175th year of providing affordable, safe, and reliable natural gas service and currently serves more than 500,000 Maryland customers in Montgomery, Prince George’s, Charles, St. Mary’s, Frederick, and Calvert Counties and 1.2 million customers across its entire service area. The Company employs over 400 people within Maryland, including contractors, plumbers, union workers, and other skilled tradespeople. The Company strives to improve the quality of life in our communities by maintaining a diverse workforce, working with suppliers that represent and reflect the communities we serve, and giving back through our charitable contributions and employee volunteer activities. The Company, together with other natural gas distribution utilities, are responsible for delivering the primary source of heat to Maryland residential energy consumers, serving approximately one half of all Maryland households while providing critical energy services to residential, commercial, and industrial customers at one-third the cost of electricity on a per unit basis.¹

The Company supports Maryland’s climate goals and believes that Maryland’s gas infrastructure can help the State meet those goals while providing a wide range of benefits to Maryland customers. House Bill 516 (“HB 516”) aims to implement a greenhouse gas (“GHG”) pollution fee, which would place an unnecessary tax on Marylanders that rely on natural gas to meet their energy needs. The fee is not in the best interest of Maryland customers and ignores the role natural gas can continue to play in achieving GHG emissions reductions. HB 516 fails to consider emissions from electricity generation by explicitly exempting electric generators from paying fees for emitting GHGs, representing a clear bias towards electrification without consideration for the emissions associated with electricity generation. The State should consider technology-agnostic

¹ DOE. [Energy Conservation Program for Consumer Products: Representative Average Unit Costs of Energy](#) (Aug. 28, 2023).

policies that can help achieve its GHG emissions reduction goals while maintaining affordable, reliable, safe, and secure energy for Marylanders.

Affordability

Placing a fee on natural gas usage in homes and buildings disregards the ability of the State's natural gas distribution infrastructure to be leveraged to help meet Maryland's climate goals in a more affordable manner than widespread electrification. Expensive energy solutions, such as full electrification, are impractical given the State's projected budget deficit² and will hamper its progress in meaningfully reducing GHG emissions. In several studies and plans, utilities across the country have examined the costs of full electrification and found that alternative solutions to high electrification should be considered. In Colorado, Xcel Energy was mandated to file a Clean Heat Plan with their Public Utilities Commission, which they submitted in November 2023. The plan outlines multiple scenarios for providing ratepayers with lower carbon heat and includes a benefit cost analysis that considers a wide range of applicable costs as well as the GHG reduction benefits of each scenario. Xcel found that achieving Colorado's specific GHG reduction goals for utilities under an 'Electrification Only' scenario would result in a net cost to customers of \$3.5-\$5.6 billion, while an 'Amended Preferred Portfolio' scenario, that includes a mix of gas and electric solutions and attempts to balance GHG emissions reductions and cost, would provide a net benefit to customers of \$302-\$355 million.³

Increasing the price of natural gas via a GHG pollution fee will increase the energy burden for Maryland households. It will directly and unjustly harm gas customers. And, a policy-driven electrification approach that shifts thermal gas users to electricity will cost even more. Studies have shown there are large costs associated with electrifying homes and buildings. For example, Home Innovation Research Labs found that electrifying an average efficiency gas house in the Baltimore climate zone provides minimal annual benefit and incurs a 48-60 year payback period, far above the 15-20 year useful life of many home appliances, such as heat pumps.⁴ In contrast, upgrading to a high-efficiency gas house from an average efficiency gas house can yield annual savings between \$176 and \$196, with a payback period of only 5-7 years.⁵ Under HB 516, Marylanders would be forced to either pay the high upfront and operating costs⁶ needed to electrify their homes and buildings, or pay higher fuel costs caused by the fee.

Not only does HB 516 encourage higher fuel costs, but the fee it creates will be passed on to customers, further undermining affordability of energy for Maryland households. Maryland law

² Maryland Matters. [Five-year budget picture has legislators weighing cuts, taxes other options](#) (Nov. 8, 2023).

³ Colorado Public Utilities Commission. [ADDITIONAL SUPPLEMENTAL DIRECT TESTIMONY AND ATTACHMENTS OF JACK W. IHLE](#) (Nov. 6, 2023). Xcel performed this analysis for two Scenarios – one assuming 'Rapid Heat Pump Performance Improvements and Lower-Bound Generation Capacity Costs' and one assuming 'Moderate Heat Pump Performance Improvements and Higher-Bound Generation Capacity Costs'.

⁴ Home Innovation Research Labs. [Cost and Other Implications of Electrification Policies on Residential Construction](#) Page 15, Table 13 (Feb. 2021).

⁵ Home Innovation Research Labs. [Cost and Other Implications of Electrification Policies on Residential Construction](#) Page 14, Table 12 (Feb. 2021).

⁶ DOE. [Energy Conservation Program for Consumer Products: Representative Average Unit Costs of Energy](#) (Aug. 28, 2023).

requires the Public Service Commission to authorize increases in a utility's rates when that rate is "just and reasonable," including setting rates that cover "necessary and proper expenses" and a reasonable rate of return for the services provided⁷. HB 516 would establish a mandatory fee on gas customer usage under Maryland law—payments required by law would be a necessary and proper expense, and therefore necessarily a prudently incurred cost⁸. As such, requiring separate determinations or rulemaking from the Commission regarding when mandatory fees are "prudently incurred" is unnecessary.

Additional concerns remain around how this fee will be implemented alongside other initiatives suggested by the State and its agencies intended to penalize the use of natural gas by residential and commercial customers. This includes measures that were suggested in the Maryland Department of the Environment's recent Climate Pollution Reduction Plan ("CPRP") such as a Clean Heat Standard, a Zero-Emission Heating Equipment Standard, and an economy-wide Cap-and-Invest program. It is unclear how the State will manage these different mechanisms and if customers will face multiple, stacked fines for using natural gas – amounting to a potentially massive increase in household energy costs. Customers that use natural gas to meet a higher proportion of their overall energy needs, or need natural gas for critical infrastructure purposes, will be unduly burdened by all of these penalties.

Feasibility of Electrification

HB 516 is another attempt to 'electrify everything' in the State without accounting for the practicality of that goal. Such efforts do not consider the feasibility of updating and expanding Maryland's power system to accommodate the increased load associated with widespread electrification. The State, through the Climate Solutions Now Act, ordered the Public Service Commission to convene an Electrification Study Workgroup to examine a potential transition to highly electrified building and transportation sectors. The study was completed at the end of 2023 and claimed that because projected electric load growth through 2031 is comparable or less than historical growth rates, the Maryland electric system can handle widespread electrification of both the transportation and building sectors. This rationale is a false equivalency because a 2% compound annual growth in peak load in the 1980s is not the same, in terms of incremental peak demand (in MW), as 2% peak load growth in the 2020s. As peak load increases, it gets harder for the electric grid to accommodate the increase. The Company was a participant in the Electrification Study Working Group for approximately one (1) year and submitted extensive comments on the fundamental flaws present in the study process and associated final report.

⁷ PUA § 4-101 (defining "just and reasonable" and requiring that a rate "result in an operating income to the public service company that yields, after reasonable deduction for depreciation and other necessary and proper expenses and reserves, a reasonable return on the fair value of the public service company's property used and useful in providing service to the public"); PUA § 4-203 (requiring Commission authorization for rate changes); PUA § 4-201 ("a public service company shall charge just and reasonable rates for the regulated services that it renders").

⁸ Courts have long held that taxes, like other necessary operating expenses, are proper rate components. See e.g., *Georgia Ry. & Power Co. v. Railroad Comm'n*, 262 U.S. 625, 633 (1923); *Galveston Elec. Co. v. City of Galveston*, 258 U.S. 388, 399, (1922); *City of Chicago v. FPC*, 458 F.2d 731, 756 (D.C. Cir. 1971), cert. denied, 405 U.S. 1074 (1972).

There are also concerns about the region’s ability to build enough infrastructure to handle high electrification. The United States Department of Energy’s 2023 Transmission Needs Study found that PJM must increase within-region transmission by 61% by 2035 and interregional transfer capacity with the Midwest region by 474% by 2035, both relative to 2020 to accommodate high load and high clean energy growth.⁹ It can take decades to obtain permits for major transmission lines,¹⁰ and more time is needed to plan, purchase land, construct, and complete other transmission development activities. Pursuing GHG emission reduction measures through the State’s integrated, multi-fuel energy system can help the State achieve its climate goals faster than waiting for the lengthy processes that are needed to support full electrification.

Emissions from Electricity Generation

While HB 516 is meant to reduce GHG emissions to help meet the State’s climate goals, discouraging natural gas use in homes and buildings while exempting electricity generation from the fee may increase emissions. PJM’s current and future electricity generation mix presents challenges to reducing GHG emissions through electrification. Today, fossil fuel resources comprise over 55% of PJM’s generation mix,¹¹ with fossil generation often being higher during periods of peak demand,¹² and PJM has documented challenges in interconnecting new renewable energy resources.¹³ The CPRP further anticipates that the State’s reliance on imported power from PJM will increase ~81% by 2030 and ~142% by 2035 as it retires additional in-State fossil resources and fails to add in-State zero-emission generation at a commensurate pace.¹⁴ The high reliance on fossil-fuel heavy electricity imports from PJM underlines the fact that electrification is not guaranteed to reduce GHG emissions, and HB 516 risks increasing that reliance and associated emissions. Since the use of fossil fuels to generate electricity is not subject to the GHG pollution fee, this will increase the use of fossil fuel for power generation by creating a more economically friendly environment for electricity generation end-use as opposed to end-uses in the buildings sector.

The State’s inability to meet its own in-State renewable energy generation targets also highlights the challenges that the electric sector is facing to meet Maryland’s climate goals. The Bureau of Ocean Energy Management (BOEM) recently excluded a proposed offshore wind energy area in Maryland from an offshore wind lease sale that is set to occur this year. Furthermore, BOEM determined that 78,265 acres off the shore of Ocean City, MD,¹⁵ were unviable due to the significant costs and mitigation of negative environmental effects that would be required.¹⁶ The excluded area was projected to generate between 1.1 – 2.2 GW of power.¹⁷ Meanwhile, Ørsted cancelled its Maryland offshore wind projects while the broader Northeast region has also hit

⁹ DOE. Transmission Needs Study [Mid-Atlantic Region](#) (Oct. 30, 2023).

¹⁰ National Governors Association Center for Best Practices. [Transmission Siting and Permitting: How Governor Leadership Can Advance Projects](#) (Feb. 2023). Page 7

¹¹ PJM. [Markets & Operations](#) (last accessed Feb. 20, 2024).

¹² PJM. [Winter Operations of the PJM Grid: December 1, 2020 – February 28, 2021](#) (Apr. 7, 2021).

¹³ PJM. [Energy Transition in PJM: Resource Retirements, Replacements & Risks](#) (Feb. 24, 2023).

¹⁴ MDE. [Climate Pollution Reduction Plan – Climate Plan Data](#) (Dec. 28, 2023).

¹⁵ BOEM. [BOEM Finalizes Wind Energy Areas in the Central Atlantic](#) (Jul. 31, 2023).

¹⁶ BOEM. [Biden Harris Administration Advances Offshore Wind in the Central Atlantic](#) (Dec. 11, 2023).

¹⁷ Offshore WIND. [BOEM Issues Draft EIS for Maryland Offshore Wind Project](#) (Oct. 2, 2023).

major stumbling blocks in adding renewable energy sources.¹⁸ In 2021, Senate Bill 65 revised down the solar carve-out requirement in Maryland’s renewable energy portfolio standard for every year from 2023-2029,¹⁹ and the State has been challenged to add sufficient new solar resources. According to the Public Service Commission’s 2022 Annual Report, applications for in-State photovoltaic solar renewable energy credits were down by ~3.9% from 2021 and the total capacity of projects approved was only 263 MW, down more than 40% from 2021.²⁰

Lower carbon fuels and other GHG emission abatement strategies for the gas system can provide emissions benefits when compared to the emissions profile of the current and projected grid electricity supply, and these solutions should not be disadvantaged by the fee proposed in HB 516.

Conclusion

Washington Gas is committed to working with stakeholders to help achieve Maryland’s GHG emissions reduction targets. Electrification is not the sole solution to climate change in Maryland. There is a role for existing and future technology innovation to support diverse pathways to decarbonizing Maryland, and the existing infrastructure can be leveraged to preserve affordability, reliability, safety, and security of service.

For the above reasons Washington Gas respectfully requests an unfavorable report on House Bill 516. Thank you for your consideration of this information.

Contact:

Manny Geraldo, State Government Relations and Public Policy Manager
M 202.924.4511 | manuel.geraldo@washgas.com

¹⁸ Maryland Matters. [Md. offshore wind developer announces ‘repositioning’ of project, seeks new financial support](#) (Jan. 25, 2024).

¹⁹ Maryland General Assembly. [Senate Bill 65](#) (Jun. 1, 2021).

²⁰ Maryland Public Service Commission. [2022 Annual Report](#) (April 2023).