SIERRA CLUB

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Committee: **Education, Energy and Environment**
Testimony on: **SB 548, Natural Gas – Strategic Infrastructure Development and Enhancement (Ratepayer Protection Act)**
Position: **Support**
Hearing Date: **February 15, 2024**

The Maryland Chapter of the Sierra Club urges a favorable report for SB 548, the Ratepayer Protection Act. This bill has the potential to align investments by gas utilities with Maryland's climate goals and reduce the cost to ratepayers by eliminating gas leaks in the utility infrastructure. The Act calls for gas utilities in Maryland to: report on proposed gas main, service, and meter infrastructure investments and their life relative to the State's goal of achieving net zero greenhouse gas emissions by 2045; align investments in gas mains and services to be consistent with Maryland's climate goals; focus on cost effectiveness; maintain a safe gas infrastructure; and consider alternatives to gas pipeline replacement.

Following the passage of the Ratepayer Protection Act, the gas utilities would continue to have the obligation to immediately repair any safety risks, as they are required to do under current law. Nothing in the bill will mandate that customers remove gas from their homes.

Maryland's Climate Solutions Now Act calls for a 60% reduction in greenhouse gas emissions by 2031 and net zero greenhouse gas emissions by 2045. Reductions in methane gas consumption and leaks will play an important role in achieving those targets. Fuel used for buildings accounts for approximately 13% of greenhouse gas emissions in Maryland. Close to half of Maryland homes heat with methane gas. Leaks of methane in the streets and in homes are under-reported and have major climate impacts; the warming potential of methane as a greenhouse gas is 83 times more powerful than carbon dioxide (over a 20-year period). Maryland's Climate Pollution Reduction Plan concludes that the State cannot meet its climate targets while continuing to heat homes and hot water with gas.

SB 548 is needed because nothing in the current Strategic Infrastructure Development and Enhancement (STRIDE)[1] program requires the gas utilities to consider Maryland's climate goals, the location of leaks, or the cost effectiveness of repairing versus replacing mains, service lines or meters. Currently, the utilities simply propose a budget for a three-year period to replace gas distribution mains, service lines and meters. They can replace pipes that are not leaking. They do not have to weigh the tradeoff between repairing and replacing leaking pipes and other equipment. Utilities have the incentive to replace mains and service lines because they earn returns on these long-lived assets. If they repair leaks, this comes out of their operating budget, and they do not earn a return on the more modest spending.

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[1] The STRIDE program allows each gas utility to propose a three-year program to replace distribution mains, service lines, meters, and certain other equipment. The program was enacted by the legislature in 2013. Costs of STRIDE are partially recovered by an addition to gas utility bills of up to two dollars per month. At the utility's next rate case, the STRIDE costs are added to base rates. Investments under the STRIDE program have totaled approximately $2 billion to date.

Maryland's three largest gas utilities plan to spend an estimated total of $9.5 billion (including spending to date) to replace gas infrastructure (largely mains and service lines) through 2043 according to an analysis prepared for the Maryland Office of the People's Counsel. In part as a result of this spending, gas rates for residential customers could rise by 119% to almost 200% by 2035 and by over 5-fold to almost 10-fold by 2050 as many customers migrate away from expensive gas.[2] These rate increases will disproportionately harm low-income households who bear significantly higher energy burdens. Low-income households account for 20-25% of total households in Maryland. A disproportionate percentage of these households are Black, Hispanic, and Asian. Energy burdens for low-income Marylanders are six times those of the average Marylander; low-income Maryland residents spend, on average, 12% of their income on energy bills compared to 2% for Marylanders as a whole.

Without reforms, continued spending on STRIDE will also leave Maryland with significant unrecovered costs of gas infrastructure. In 2040, 63-79% of this spending will be unrecovered and in 2060, 28-45% will not yet be recovered.[3] As the gas system contracts, these costs will be borne by a smaller and smaller set of customers.

The Ratepayer Protection Act calls for alternatives to this wasteful spending. Gas utilities would need to compare the cost and effectiveness of leak measurement and repairs with pipeline replacement in their STRIDE program filings. In many cases, repairs can be much less expensive, as low as $3,000 per leak repair versus $2,630,000 per mile for pipe replacement. The utilities would also need to report on the useful life of any STRIDE investment so that proposed repairs can be considered in the context of Maryland's climate goal of achieving net zero emissions by 2045. They would also need to consider targeted retirement of some sections of the gas system as an alternative to infrastructure replacement.

Under SB 548, the Public Service Commission (PSC) would need to consider the cost effectiveness of programs and projects and whether the projects proposed by gas utilities are consistent with Maryland's climate policy. SB 548 represents a good first step in reigning in costly spending on gas infrastructure that is likely to lead to stranded assets by 2045. It requires the utilities and the PSC to consider Maryland's climate goals as well as cost effectiveness as they plan for investments in gas infrastructure.

The Maryland Chapter of the Sierra Club urges approval of this legislation.

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[2] Climate Policy for Maryland's Gas Utilities, Financial Implications, page 21, Office of the People's Counsel, State of Maryland, October 2022

[3] Maryland Gas Utility Spending projections and analysis, page 31 Office of the People's Counsel, October 2022, https://opc.maryland.gov/Portals/0/Files/Publications/Reports/Report%20on%20GasUtilitySpending%2010-5-22%20Final%201.pdf