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**BILL NO.:** House Bill 0419 – Natural Gas - Strategic Infrastructure  
Development and Enhancement (Ratepayer Protection Act)

**COMMITTEE:** Economic Matters Committee

**HEARING DATE:** February 6, 2025

**SPONSOR:** Delegate Embry

**POSITION:** Favorable

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The Office of People's Counsel ("OPC") respectfully requests a favorable Committee report on HB 419, the Ratepayer Protection Act. HB 419 seeks to enact modest but important changes to the Strategic Infrastructure Development and Enhancement ("STRIDE") law to ensure that STRIDE spending plans focus on the riskiest gas infrastructure, evaluate less costly alternatives to pipeline replacement, and are consistent with Maryland's climate policies. HB 419 has the potential to lower gas bills by billions of dollars in the decades ahead. Enacting the bill is the single most important action the General Assembly can take this session to mitigate rising energy costs in Maryland.

### **Background**

The General Assembly enacted the STRIDE law in 2013 and has not substantively amended it since then,<sup>1</sup> despite major changes in technology and state energy policy. The

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<sup>1</sup> 2013 Md. Laws Ch. 161 (S.B. 8) (codified at Md. Code Ann. Pub. Util. ("PUA") § 4-210). Senate Bill 162 of 2016 amended the STRIDE law to change the Public Service Commission's review period for proposed STRIDE plans from 120 days to 150 days.

law encourages gas utilities to replace older gas infrastructure by allowing them to recover their replacement spending on an accelerated basis. Prior to STRIDE, gas utilities generally could not bill customers for infrastructure replacement projects until after the projects were in service and had been reviewed by the Public Service Commission (“PSC”). Under STRIDE, however, gas utilities charge customers for the estimated costs of projects while the company is carrying them out. The STRIDE law gives the utilities an easier and faster method of recovering the costs of gas infrastructure spending from customers—and this incentivizes gas infrastructure spending.

Since the STRIDE law was enacted more than ten years ago, advances in technology and changes to energy policy have begun driving the shift toward electrification and away from natural gas consumption.

Yet, Maryland’s gas utilities continue to spend more than \$2 million each day—hundreds of millions a year—on gas infrastructure. For the last three years, OPC has been monitoring this spending closely—and working to align it with the public interest. In 2022, OPC released a report documenting how much the State’s three largest gas utilities—Baltimore Gas and Electric Company (“BGE”), Washington Gas Light (“WGL”), and Columbia Gas of Maryland (“Columbia”)—had spent on capital investments since 2014, both under STRIDE spending plans and outside of them.<sup>2</sup> The report also made conservative projections of how much the utilities would spend in the future, based on their own stated plans and filings with the PSC.

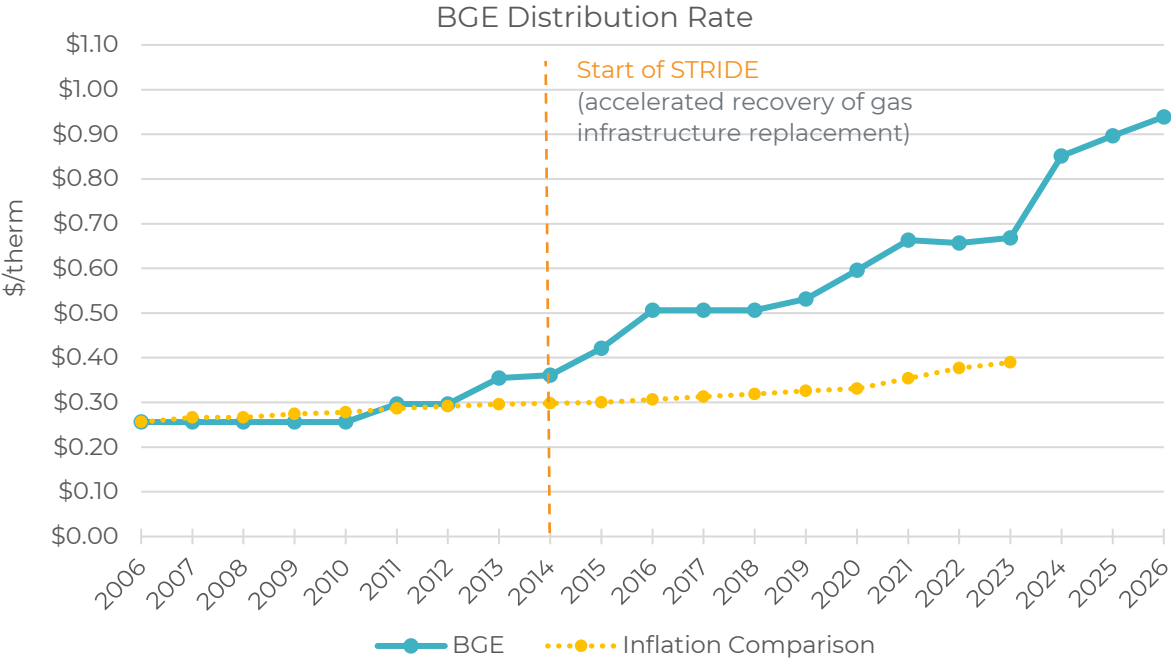
This week, we are releasing the latest update of the gas spending report. It shows that through 2023, Maryland’s gas utilities spent just under \$2.1 billion on new gas infrastructure under the STRIDE program, and they are on track to spend another \$7.2 billion by 2043, to complete their programs. At that point, ratepayers will have paid over \$11.3 billion in STRIDE costs—including utility profits—on their gas utility bills. If STRIDE spending is allowed to continue unchecked, ratepayers can be expected to pay a total of more than \$31 billion by 2100. The table below summarizes these impacts.

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<sup>2</sup> *Maryland Gas Utility Spending: Projections and Analysis of Future Capital Investments*, January 2022, available at <https://opc.maryland.gov/Gas-Utility-Spending-Report>.

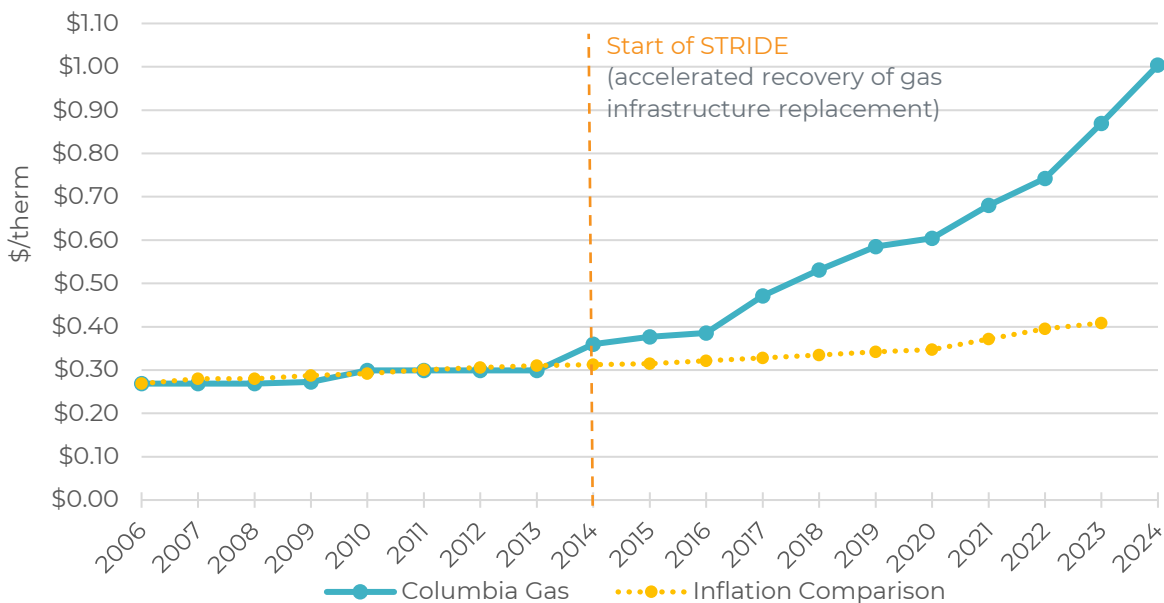
\$Millions	STRIDE Investments		Costs to Ratepayers	
	2014-2023	2024-2043	2014-2043	2014-2100
Columbia	\$171.02	\$0.00	\$449.33	\$389.04
WGL	\$598.66	\$4,239.89	\$4,547.39	\$17,718.39
BGE	\$1,304.64	\$2,991.29	\$6,314.74	\$13,229.40
<b>Total</b>	<b>\$2,074.33</b>	<b>\$7,231.18</b>	<b>\$11,311.47</b>	<b>\$31,336.83</b>

Following years of rapidly rising gas utility bills and increasing customer distress, in 2024, [OPC released another report](#) that examined how utility rates in Maryland (both gas and electric) have changed over the last 10-15 years.<sup>3</sup> Using a variety of figures and tables, this report shows that most Maryland utility customers have seen their gas and electricity rates increase significantly during this period, with some rates increasing by multiples of two or three and that most of these increases are due to utility capital spending and are unrelated to the commodity costs of gas and electricity. The report also highlights the effect of STRIDE spending on BGE and Columbia rates:



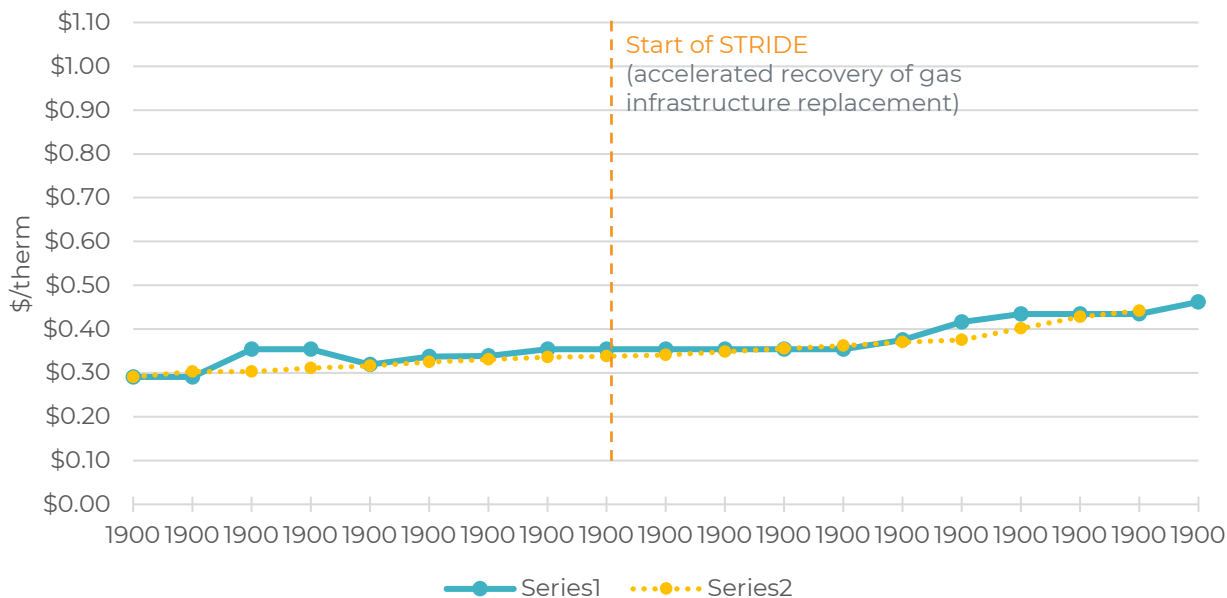
<sup>3</sup> *Maryland Utility Rates and Charges*, June 2024, available at <https://opc.maryland.gov/Consumer-Learning/Utility-Rates-and-Basics>.

Columbia Gas Distribution Rate



WGL’s rates increased less during STRIDE’s first decade—essentially at the rate of inflation, as measured by the federal Consumer Price Index. On a per-customer basis, WGL has spent about 64 percent of what BGE has spent on STRIDE-eligible infrastructure.

WGL Distribution Rate



## Comments

The General Assembly should pass HB 419 both to lower STRIDE costs for gas utility customers and to better align the STRIDE law with technological and economic realities and State climate policy, both of which show a clear trend toward electrification. Electric heat pumps and water heaters have made significant advances technologically cost-wise, making them highly competitive alternatives to gas appliances for space heating and water heating.<sup>4</sup> Recent data shows these trends playing out in the market, with heat pumps outselling gas furnaces.<sup>5</sup> In sum, as a witness for one of Maryland’s gas utilities stated this month, “gas utilities in the State are definitely going to face more competition from electric utilities going forward.”<sup>6</sup>

Additionally, for Maryland to achieve the greenhouse gas reduction targets that the General Assembly established in the Climate Solutions Now Act, the State must eliminate most of the emissions from buildings—currently about 16 percent of total State emissions.<sup>7</sup> Even if these emissions reduction goals are only partially met, they will require a sharp reduction in gas consumption that will cause rates to rise even further than under business-as-usual. Both the Maryland Commission on Climate Change and the Building Energy Transition Implementation Task Force have recommended that the

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<sup>4</sup> For example, a 2021 study from the Lawrence Berkeley National Laboratory found that, on average nationally, a new gas furnace and AC have a combined installed cost of almost \$11,000 for residential retrofits. In contrast, the installed cost of heat pumps is substantially less, at just over \$8,000. Less, B. D., et al. 2021. *The Cost of Decarbonization and Energy Upgrade Retrofits for US Homes*, Lawrence Berkeley National Laboratory, <https://escholarship.org/uc/item/0818n68p>. In addition to cheaper up-front costs, heat pumps serve as both the heating and cooling device for a home, requiring a household to only maintain one system. As the Maryland Department of the Environment’s recent Climate Pollution Reduction Plan confirmed, there is no need for a backup home heating source: “Modern heat pumps are more than capable of meeting 100% of the heating demand of Maryland buildings.” *Maryland’s Climate Pollution Reduction Plan* (Dec. 28, 2023), at p. 39.

<sup>5</sup> Rocky Mountain Institute, *Tracking the Heat Pump & Water Heater Market in the United States*, <https://rmi.org/insight/tracking-the-heat-pump-water-heater-market-in-the-united-states>.

<sup>6</sup> In the Matter of Columbia Gas of Maryland, Inc.’s Application for Authority to Increase Rates and Charges for Natural Gas Services, CN 9754, Hearing Tr. at 26:18-27:7 (Jan. 22, 2025) (statement of Columbia Gas witness Vincent Rea).

<sup>7</sup> See Maryland Department of the Environment, Priority Climate Action Plan: State of Maryland at 26 (March 1, 2024, available at <https://www.epa.gov/system/files/documents/2024-03/mde-state-of-maryland-cprg-priority-climate-action-plan.pdf>). The 16 percent figure is based on Maryland’s 2020 emissions inventory. OPC understands that the results of the 2023 inventory will be released this year.

General Assembly make modest modifications to the law to reduce ratepayer costs and facilitate electrification.<sup>8</sup>

As explained below and in the attached fact sheet, HB 419 seeks to enact these recommendations by making three modest changes to the STRIDE statute. These changes would require gas utilities to:

1. prioritize the replacement of aging pipes based on their risk to the public;
2. use alternatives to replacement, including leak detection and repair and targeted retirement in conjunction with electrification, where less costly; and
3. provide sufficient notice to customers affected by proposed gas infrastructure replacement projects to allow them the opportunity to electrify.

#### **1. Prioritizing replacement based on risk**

The intent of the STRIDE program is to accelerate the replacement of aging gas infrastructure to improve public safety and reliability. But as currently written, the STRIDE statute does not add any safety requirements to the gas utilities' core obligation to provide safe and reliable service.<sup>9</sup> Although the statute requires that an eligible project be “designed to improve public safety or infrastructure reliability,” it includes no requirement for the utilities to target replacement of those pipes that pose the greatest safety risk. Under the existing law, gas utilities can determine which work to complete through STRIDE based on non-risk related factors, including annual mileage goals, paving density, location, and government coordination. This allows gas utilities to prioritize broader goals of system replacement over maximizing system risk reduction.

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<sup>8</sup> Md. Comm'n on Climate Change, *2023 Annual Report*, Mitigation Working Group Recommendation #14, at p. 14, available at <https://mde.maryland.gov/programs/Air/ClimateChange/MCCC/Pages/MCCCReports.aspx>; *The Building Energy Transition Implementation Task Force Final Report* (Jan. 24, 2024) at p. 15, available at <https://mde.maryland.gov/programs/air/ClimateChange/Pages/BETITF.aspx>.

<sup>9</sup> PUA § 5-303. This obligation is part of the extensive regulation companies are subject to in exchange for the government's grant of an exclusive franchise to provide service in a particular area.

The Ratepayer Protection Act seeks to fulfill the statute’s intent by requiring that a gas utility “select[] and give[] priority to projects based on risk to the public and cost-effectiveness.”<sup>10</sup>

## **2. Using alternatives to replacement where less costly**

As currently written, the STRIDE statute does not require gas utilities to evaluate reasonable alternatives to replacing gas pipelines. In recent cases before the PSC, OPC and others have unsuccessfully argued that such evaluation should be part of any prudence determination.<sup>11</sup> While noting the concern that replacement may not be aligned with the likelihood of diminished gas throughput as the State moves toward greater reliance on renewable energy and away from GHG-generating fuel sources,” the PSC has declined to require any robust alternatives analysis in the absence of further legislative action, stating in a recent decision: “Until the General Assembly enacts changes to the STRIDE statute to further refine the allowable investments in the natural gas infrastructure in light of the potential for diminished gas service, the Commission is limited in available options regarding proposed plans.”<sup>12</sup>

Not only does the existing STRIDE law fail to explicitly require utilities to consider less-costly alternatives to replacement, it also incentivizes replacement without consideration of repair. The STRIDE statute allows gas utilities to receive accelerated cost recovery for spending on capital assets such as pipes and other gas infrastructure, but not for spending on operation and maintenance (“O&M”) such as routine leak detection and repair.<sup>13</sup> This perverse incentive is exacerbated by the fact that utility profits are directly tied to spending on capital assets. Utilities finance the spending and collect the costs—plus profit—from customers over many decades. The more money the utilities spend on capital assets, the more profit they stand to earn, which incentivizes full pipe replacement, even if there is a more cost-effective alternative, such as leak detection and repair.

The Ratepayer Protection Act would require gas utilities to evaluate alternatives to replacement by requiring that a gas utility include in its STRIDE plan “an analysis that

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<sup>10</sup> See §§ 4-210(d)(2)(v) & 4-210(e)(3)(iii).

<sup>11</sup> See e.g., PSC Case No. 9708, OPC Initial Brief at p. 14, maillog # 305654 (Oct. 16, 2023). All PSC filings are available by searching the PSC’s website by maillog #, <https://webpsc.psc.state.md.us/DMS/>.

<sup>12</sup> PSC Case No. 9708, PSC Order No. 90941, Full Commission Memorandum on Decision on Stride Appeals, maillog # 307037 (Jan. 10, 2024), at p. 12.

<sup>13</sup> Maryland gas companies classify leak repair work as capital investment or O&M expense, depending on whether the repair work involves the replacement of infrastructure. Leak detection work is always classified as O&M.

compares the costs of proposed replacement projects with alternatives to replacement,” and providing that to approve a plan, the Commission must find that the projects are “required to improve the safety of the gas system *after consideration of alternatives to replacement.*”<sup>14</sup>

### **III. Providing notice to customers**

At present, the STRIDE statute includes no requirement for a gas utility to provide notice to affected customers before proceeding with costly infrastructure replacements. Given Maryland’s climate policy goals and the numerous incentives for customers to electrify—not to mention the disruption that gas infrastructure brings to people’s daily lives and impacts it has on their property—a gas utility should be required to notify customers far enough in advance to allow customers time to consider electrifying their appliances and prevent stranded costs. It can take many months for customers to investigate incentive programs, contact and select contractors, apply for loans, and wait for the contractor to do the work.

The lack of sufficient advance notice creates further risk of stranded assets. For example, imagine a current gas customer who is planning to electrify but has not yet started the process and receives 30 days’ notice of a service upgrade. The customer still needs gas now, so they have to go through with the service upgrade. But the customer electrifies two years later, rendering the service, meter, regulator, and other associated equipment useless.

To provide customers with ample prior notice to electrify and turn down the service upgrade, rather than wasting resources on replacing a soon-to-be unused service, the Ratepayer Protection Act would require that a gas utility include in its STRIDE plan “a plan for notifying customers affected by proposed projects” to allow customers the opportunity to convert to electric appliances.

### **Recommendation**

HB 419 does not repeal the STRIDE statute. It does not prevent gas utilities from making necessary capital investments to ensure safety and reliability. Gas utilities have always had a duty to keep their systems safe and reliable, and that duty would continue even if the STRIDE statute were repealed altogether. The bill does not prohibit gas utilities from receiving accelerated cost recovery for qualifying investments. HB 419

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<sup>14</sup> See Bill text at § 4-210(d)(2), (f)(3).



simply requires gas utilities, and the PSC, to take common-sense steps to ensure that these costly investments target the greatest safety risks and align with State climate policy. For these reasons, OPC requests a favorable Committee report on HB 419.






# Ratepayer Protection Act (HB 419)

Enacted in 2013, the Strategic Infrastructure Development and Enhancement Plan (STRIDE) law allows gas utilities accelerated financial recovery when they spend on gas infrastructure replacement projects. Through a surcharge on customer bills, gas utilities recover the estimated costs of projects while the company is carrying them out. This gives the utility an easier and faster method of recovering the costs of gas infrastructure spending from customers than conventional utility cost recovery does.

To date, Maryland’s gas utilities have spent more than **\$2.1 billion** on new gas infrastructure—including the large gas pipelines known as “mains,” customer service pipes, meters, and regulators, and other infrastructure—under STRIDE. By 2043, they are projected to spend another **\$7.2 billion**, and ratepayers will have paid about **\$11.3 billion**—including the utilities’ return. As of today, customers have paid only about three percent of what STRIDE will ultimately cost them. If the spending continues unchecked, ratepayers will be expected to pay more than **\$31.3 billion** by 2100 for STRIDE alone.

Utility profits are directly tied to their spending on capital assets such as pipes and other gas infrastructure. Utilities finance the spending and collect the costs—plus profit—from customers over many decades. The more money the utilities spend on capital assets, the more profit they stand to earn. Because utilities profit by spending more, the gas companies have a powerful profit motive to maintain the status quo of accelerated spending on gas

The modest changes in the **Ratepayer Protection Act**—recommended by both the Maryland Commission on Climate Change and the Building Energy Transition Implementation Task Force—seek to modernize STRIDE, reduce customer costs, and align STRIDE with technological advances and state climate policy.

	CURRENT STRIDE LAW	MODIFIED STRIDE LAW
 <b>Cost recovery</b>	Gives utilities accelerated cost recovery for qualifying gas infrastructure replacement investments	Continues to allow utilities to receive accelerated cost recovery for qualifying investments
 <b>Safety</b>	Adds nothing to the utilities’ core obligation to provide safe and reliable service	Requires utilities to prioritize replacement of aging pipes based on their risk to the public
 <b>Alternatives to replacement</b>	Fails to require utilities to consider less-costly alternatives to replacement and incentivizes replacement over repair	Requires evaluation of alternatives to replacement, including leak detection and non-pipeline alternatives
 <b>Climate policy</b>	Requires only that a qualifying project has the “potential” to reduce GHG emissions	Aligns long-term gas infrastructure management with federal and State climate policy
 <b>Ratepayer costs</b>	Drives spending that causes excessive rate increases and risks stranding billions of dollars on obsolete infrastructure	Reduces customer rates by requiring less-costly alternatives; lowers the risk of spending on assets likely to become uneconomic

# 5 Myths about STRIDE Reform

**1** **MYTH:** Modifying the STRIDE statute will compromise safety.

**TRUTH:** The Ratepayer Protection Act would *enhance* safety requirements by prioritizing replacement of aging pipes most at risk to the public. **The current STRIDE law does NOT add any safety requirements.** Utility services are provided by companies that enjoy an exclusive, government-granted franchise to provide service in a particular area, which comes with extensive regulation, including a core obligation to provide safe and reliable service.

**2** **MYTH:** STRIDE “leverages” the existing gas system to meet State climate goals.

**TRUTH:** Under STRIDE, the utilities are not “leveraging” their existing gas systems but rather *completely replacing* them, and overall, they still have about two-thirds of the replacement work to go. **They won’t finish that work until 2043, when fossil fuel use in Maryland needs to decrease substantially**—by some estimates more than 90 percent.

**3** **MYTH:** Pipes installed under STRIDE can be repurposed for lower carbon fuels.

**TRUTH:** Hydrogen, biomethane, and other forms of non-fossil gas are **scarce, much more expensive than fossil gas, and have significant challenges related to emissions, safety, and compatibility with existing pipes and appliances.**

**4** **MYTH:** The gas system must be maintained as a backup for electric heat pumps.

**TRUTH:** Heat pump technology has vastly improved in recent years, with more improvements on the way. As the Maryland Department of the Environment’s recent Climate Pollution Reduction Plan confirmed, “[m]odern heat pumps are more than capable of meeting 100% of the heating demand of Maryland buildings.” No backup is needed.

**5** **MYTH:** Gas is needed because electrification will break the distribution grid.

**TRUTH:** Without gas, electric reliability can be comfortably maintained with competent performance by Maryland’s electric utilities. According to the data—including data in the electrification study recently published by the Public Service Commission—even with high electrification, peak energy demand will grow gradually, and growth will be less than Maryland electric systems have seen in past decades.