

DAVID S. LAPP
PEOPLE'S COUNSEL

WILLIAM F. FIELDS
DEPUTY PEOPLE'S COUNSEL

JULIANA BELL
DEPUTY PEOPLE'S COUNSEL

OPC

OFFICE OF PEOPLE'S COUNSEL

State of Maryland

6 ST. PAUL STREET, SUITE 2102
BALTIMORE, MARYLAND 21202
WWW.OPC.MARYLAND.GOV

BRANDI NIELAND
DIRECTOR, CONSUMER
ASSISTANCE UNIT

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Contact:
Lori Sears
lori.sears@maryland.gov
410-767-8172

Gas rates will rise to unsustainable levels as Maryland meets climate goals, new OPC report finds

BALTIMORE – Maryland's gas utility customers should prepare for gas utility rates to spiral upward, doubling or tripling 2021 levels by 2035, and, by 2050, potentially reaching levels more than 10 times higher, according to [a study released today](#) by the Maryland Office of People's Counsel. Prepared by Synapse Energy Economics, the report, *Climate Policy for Maryland's Gas Utilities: Financial Implications*, evaluates what decarbonization means for the gas utilities as the residential building sector gradually transitions off natural gas, with almost all residential customers heating their homes in 2050 solely with electricity.

Even without major climate policy initiatives, gas home heating systems have been gradually losing market share to electric heating systems since 2010, the report shows. But meeting the State's climate goals requires eliminating most use of natural gas in Maryland's buildings by electrifying household appliances and heating and cooling systems. While gas utilities do not directly profit from the sale of gas itself, they recover most of their spending on the distribution system through rates based on gas use. Less use of gas means rates must rise to capture the revenues needed to pay for the infrastructure spending from fewer customers.

"Electrification is already happening," said Maryland People's Counsel David S. Lapp. "The only question is the pace at which it will occur. This report shows how—without changes in gas spending practices—reducing fossil gas consumption at the pace necessary to meet the State's climate goals leads to unsustainable rate increases, with a high risk of stranded costs."

Highly efficient electric heat pumps are commercially available now to provide heating as well as cooling, the report explains. For new residential buildings, the cost of installing electric heat pumps is much less than installing fossil gas heating equipment plus central air

conditioning. For existing housing, installing an electric heat pump is similar to or less than the combined cost of installing fossil gas heating and central AC. In Maryland's climate, cold climate heat pumps can meet all heating needs without need for backup heating, the report says.

At the same time, potentially lower-carbon alternatives to fossil gas—which are frequently used to justify continued spending on fossil gas distribution infrastructure—are not commercially available, and they pose significant challenges related to cost, emissions, safety, and energy use during production, according to the report.

"Neither the State nor its utility customers can afford to risk tens of billions of dollars to build and maintain gas systems that have no certain economic use," Lapp said. "We don't need to gamble. We have electrification technologies that are commercially available now that can lower greenhouse gas emissions and save customers on their bills."

The report assumes Maryland's residential consumers will, over time, adopt electrification at high rates, consistent with the lowest cost pathway identified in the Maryland Commission on Climate Change's October 2021 study, "Maryland Building and Decarbonization Study: Final Report." The report models the progress of Maryland's electrification and projects greenhouse gas emissions, trends in gas consumption, and space heating type and equipment sales. The modeling then uses the projections to analyze the financial implications of Maryland's climate goals for gas utilities in the State through 2050.

The new report complements OPC's October 2022 report, [Maryland Gas Utility Spending: Projections and Analysis](#), which shows that Maryland gas utilities are spending more than a half billion dollars a year on new gas infrastructure—dollars that end up costing customers more than three times more after accounting for the utility's profits and recovery periods that last decades into the future. The new report's modeling finds that, if not abated, current spending levels will combine with departing gas customers and declining sales to cause massive increases in customer costs and stranded costs. The following table summarizes the modeling results for annual gas bills of customers still heating their households with gas:

**2035 and 2050 range of residential bill impact,
depending on cost of alternative gaseous fuels (AGF)***

Annual Bill (2020\$)			
	2021	2035 AGF range	2050 AGF range
BGE	\$820	\$1,464 to \$1,944	\$4,634 to \$6,759
WGL	\$780	\$1,315 to \$1,868	\$3,827 to \$6,270
CMD	\$1,086	\$1,818 to \$2,408	\$3,979 to \$6,591

* The report includes biomethane, recovered methane, hydrogen, and synthetic natural gas or synthetic methane as alternative gaseous fuels.

The Maryland Office of People's Counsel is an independent State agency that represents Maryland's residential consumers of electric, natural gas, telecommunications, private water and certain transportation matters before the Public Service Commission, federal regulatory agencies and the courts.

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