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PRESS RELEASE

FOR IMMEDIATE RELEASE:
October 6, 2022

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Business as Usual Means Gas Delivery Costs Will Skyrocket, OPC Analysis Finds

BALTIMORE – Without big changes, Maryland customers of the State's three largest gas utilities face continuing, substantial increases in the price of gas delivery service, according to a report released today by the Office of People's Counsel, *Maryland Gas Utility Spending: Projections and Analysis*. The report, prepared by the consulting firm DHInfrastructure, shows that the utilities are on track to spend tens of billions of dollars replacing their entire local distribution systems and expanding pipeline capacity, with the State's largest gas utility this year spending at a rate of more than $1.2 million per day.

"These massive investments on new fossil-fuel infrastructure serve the utilities' financial interests, but they create risks for customers, are contrary to State policy for reducing greenhouse gas emissions and represent a lost opportunity for meeting the State's climate goals," said People's Counsel David S. Lapp. "Although some spending is certainly necessary and appropriate for safety and reliability, the current wholesale approach to infrastructure replacement and system expansion is largely unconnected to safety considerations."

Such gas system capital spending is paid back by gas utility customers over the long term—along with a return for utility shareholders—much like homeowners pay for the principal plus interest on their mortgage. OPC's report estimates, conservatively, that the current spending path would have customers of the State's three largest gas utilities paying more than $125 billion over the next 80 years for the utilities' capital spending.

"The data show that gas utility spending on the distribution systems that bring gas into people's homes and businesses already has driven big increases in the costs of gas delivery service and that big spending is planned for decades to come," Lapp said. "Without significant policy reform, customers face dramatic increases in gas delivery rates. And these investments are risky. Because we need to address climate change, to which fossil gas contributes, gas utilities themselves face the possibility that their investments will become obsolete and uneconomic. If that happens, the public may be asked to bail them out."

OPC's report focuses on the costs of the gas distribution—or "delivery"—system. These costs are separate from the price of gas itself, known as the commodity cost. The commodity cost has more than doubled over the past two years and can be expected to cause hardship this coming winter for many residential gas utility customers, even apart from increasing delivery system costs.

The report analyzed recent and planned delivery-system spending programs of Baltimore Gas & Electric (BGE), Washington Gas Light (WGL), and Columbia Gas of Maryland (CMD), using publicly available data from various reports, as well as filings and orders of the Public Service Commission, and then made future spending projections based on that information. Among other findings, the report's conservative calculations show that the utilities' current spending path, if left unchanged, will result in substantial increases in the typical residential utility customer's 2035 winter bill from 2020-2022 levels:

- BGE customers will see a 56% bill increase, up from $192/month to $299/month.
- WGL customers will see a 40% bill increase, up from $160/month to $224/month.
- CMD customers will see a 45% bill increase, up from $186/month to $270/month.

These bill impacts likely understate the actual impact of business-as-usual because of several conservative assumptions in OPC's modelling. For example, OPC's model uses each utility's five-year February average gas commodity price—an average price that in each case is less than half the utility's September 2022 commodity price.

The gas industry has argued that its spending on the natural gas delivery system makes sense, despite fossil gas's contribution to greenhouse gas emissions, because the system eventually may be used for lower-carbon non-fossil gases such as biomethane and hydrogen.[1] These alternatives, however, face technological challenges, are much more expensive than fossil gas, and are not available in the quantities needed to replace fossil gas. On the other hand, electrification technologies—such as electric heat pumps—are currently available and competitively priced.

Despite the gas utilities' current and planned capital spending, neither the Maryland General Assembly nor the Public Service Commission has required any comprehensive long-term gas utility planning. The gas utilities hold State-granted monopolies in return for being subject to regulation. Left unchecked, these companies—each owned by out-of-state large utility holding companies—will prioritize obligations to their shareholders. More capital investments, such as natural gas infrastructure, mean greater shareholder returns. Regulatory oversight is necessary to ensure the utilities operate in the public interest.

"The data show that the State's gas utilities are engaged in a spending spree that will cost customers, shareholders, or taxpayers dearly in the coming years," Lapp said. "Spending decisions are being made today—on a daily basis—on systems for delivering fossil fuels that are economically not viable over the long term and are contrary to the State's climate goals. This high-stakes gamble should not be done with customer dollars."

OPC's report, the report's executive summary, and a fact sheet are available on OPC's website. OPC's FAQs provide further information about the State's infrastructure replacement program (called STRIDE), including its relation to gas distribution safety.

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[1] *For example, see the American Gas Association's February 2022 report, available at https://www.aga.org/globalassets/research--insights/reports/aga-net-zero-emissions-opportunities-for-gas-utilities.pdf, at page 38 et seq.*

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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