ORDER NO. 91683

Petition of the Office of People's Counsel for Near-Term, Priority Actions and Comprehensive, Long-Term Planning for Maryland's Gas Companies	* * * * * * *	BEFORE THE PUBLIC SERVICE COMMISSION OF MARYLAND CASE NO. 9707

Issue Date: June 13, 2025

ORDER ON STAKEHOLDER PROPOSALS FOR REVISION OF GAS POLICY

On February 9, 2023, the Maryland Office of People's Counsel ("OPC') filed a "Petition for Near-Term, Priority Actions and Comprehensive, Long-Term Planning for Maryland's Gas Companies (the "Petition")."[1]

On June 14, 2023, the Commission issued a Notice requesting comments regarding the Petition.[2] The Commission received extensive comments from over a dozen stakeholders.

On July 25 and July 31, 2024, the Commission held legislative-style hearings to consider the comments filed by stakeholders.

In this Order, the Commission addresses the near-term and long-term roadmap recommended by OPC and addresses some of the issues identified in stakeholder comments and at the hearings thereon. The Commission will issue further orders addressing items raised but not addressed herein at a later time.

[1] Maillog No. 301247 (the "Petition").
[2] Maillog No. 303506.

Background

1. OPC's Petition and Proposed Roadmap

In the Petition, OPC argued that "gas companies"[3] escalating capital spending on infrastructure–as well as their procurement, line-extension, marketing, and EmPOWER practices, among others–are misaligned with technological and economic trends toward the replacement of fossil fuel natural gas with electricity, Maryland's greenhouse gas reduction goals, and Maryland's evidence-backed policy to convert buildings to electricity to meet the challenge of climate change."[4]

OPC proposed that the Commission establish a proceeding to determine what regulatory actions should be taken, both immediately and over the long term, to mitigate the risks OPC identified. OPC proposed a proceeding with two tracks–one for long-term planning, and another for priority actions that "do not need extensive investigation and fact-finding," "based on the widely accepted fact that gas sales will decline" because of technological improvements and State policy.[5]

For priority actions, OPC proposed that the Commission require gas companies to (1) modify their gas procurement practices, (2) revise their gas line extension policies, (3) revise their marketing practices, and (4) stop EmPOWER Maryland incentives to adopt high-efficiency gas appliances.[6]

For long-term planning, OPC proposed that the Commission undertake an investigation to make findings on natural gas usage reductions, potential rate impacts, and

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[3] For purposes of this Order, the Commission clarifies that the term gas company refers to a gas utility, or combination gas and electric utility, that is subject to the Commission's jurisdiction.
[4] Petition at 1.
[5] *Id*. at 3.
[6] *Id*. at 4.

related operational and financial matters caused by the transition to electrification, and then to issue guidance on regulatory strategies to reduce customer costs and risks, including the adoption of new regulations.

2. Stakeholder Comments on OPC's Proposed Roadmap

The Commission received comments on OPC's Petition from over a dozen stakeholders. Those stakeholders expressed divergent opinions on OPC's recommendations for a dual-track proceeding. The stakeholders also presented widely divergent opinions about the likely future of natural gas. While many stakeholders argued for the need to reduce Maryland's reliance on natural gas to meet Maryland's legislative commitments to reduce greenhouse gas emissions and increase electrification, such as those contained in the 2022 Climate Solutions Now Act ("CSNA"), others were more cautious about the roadmap for getting there.

For example, while the Commission's Technical Staff ("Staff") supported OPC's request to initiate a proceeding, Staff expressed uncertainty about the future role of the State's gas utilities and probable future uses of Maryland's gas infrastructure.[7] Staff argued that it is the responsibility of the Maryland General Assembly to set the course by choosing a greenhouse gas reduction pathway and enact enabling legislation. Staff suggested that this proceeding could be utilized to position the Commission to advise the legislature on these matters.

[7] Staff Comments at 4.

Staff also recommended the Commission follow the model it took in Case Nos. 8678 and 8738, which concerned the electricity deregulation proceedings in the 1990s.[8] Staff further recommended that the Commission should determine which items are appropriate for priority action.[9]

Other parties expressed different views. For example, Washington Gas Light Company ("WGL") recommended that the Commission conduct a "comprehensive review of all energy sources to fully capture the dynamic impacts of shifts in the energy equation."[10] WGL also objected to OPC's proposal that the Commission act on "priority actions" without undertaking extensive investigation and factfinding, which it called the "antithesis of reasoned decision-making."[11]

Commission Decision

The Commission is persuaded that a larger discussion about the future of natural gas is appropriate, given Maryland's commitments to greenhouse gas reductions and electrification. The Commission appreciates the concerns of stakeholders that the Commission act based on investigation and fact-finding where appropriate, and make its own determinations as to the issues it takes under consideration, and when and how it makes those decisions.

Having said that, however, the Commission concludes that certain issues are ripe for decision now, while others require further investigation. Accordingly, in this Order, the

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[8] Case No. 8678, *In the Matter of the Commission's Inquiry Regarding Electric Services, Market Competition and Regulatory Policies;* Case No. 8738, *In the Matter of the Commission's Inquiry into the Provision and Regulation of Electric Service.*
[9] Staff Comments at 6.
[10] WGL Comments at 2.
[11] *Id.*

Commission addresses some of the near-term issues identified by OPC, such as revisions to the natural gas service and main line extension policies. Other issues, such as long-term planning, will be addressed in future proceedings and orders.

Issues for Decision

1. Gas Line Extensions

a. OPC

OPC argued in support of revisions to the current gas service and main line extension policies and tariffs.[12] OPC observed that current utility gas line extension policies expose ratepayers to the risk of stranded gas infrastructure costs caused by system expansion.[13] OPC used WGL as an example of a gas company that does not typically charge new residential service customers for the cost of those extensions, but instead collects those costs through distribution rates over the lifetime of the infrastructure, which can last many decades.

OPC argued that there exists doubt concerning whether gas demand will exist or increase for the full period of those projections. OPC further argued that, if gas demand falls substantially, service and main line gas extension projects may become uneconomic in the long term for any utilities that continue to spread gas line extension costs out over long periods, as WGL does.

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[12] OPC's petition, which covered this issue, as well as the others discussed herein, was supported by numerous other non-profit and governmental stakeholders, some of whom offered general or specific policy recommendations in support of OPC's positions. Those stakeholders included: the Center for Progressive Reform; Montgomery County; RMI; a coalition of nine organizations styling itself the Non-Profit Organizations; and Advanced Energy United. This Order will not recite the positions of other stakeholders, but the Commission notes their support.

[13] OPC Petition at 38-39.

b. WGL

WGL argued that OPC's assumption that natural gas sales will decline ignores evidence about the reliability, affordability, and carbon intensity of gas relative to electricity.[14] WGL further argued that taking action now with respect to current line extension policies, without sufficient fact-based analysis of the full range of costs and benefits associated with electrification, risks perverse results that could negatively impact customers without achieving the intended environmental benefit.

WGL voiced concerns about the costs of retrofits and electrical system upgrades, assuming electric service is promoted over natural gas. It observed that, currently, customers appear to prefer gas appliances to electric. WGL also urged the Commission to consider the structural issues associated with the electrical grid and generation markets, particularly as they relate to the natural gas (and alternative fuel) markets affecting Maryland. Finally, WGL described conditions in other markets outside of Maryland with respect to the progress of electrification efforts.

c. Commission Staff

Staff agreed that service-line extension policies are suitable for review now. Staff observed that some gas companies do not charge residential customers for most service line extensions, as long as no mains need to be extended.[15] Staff stated that this policy subsidizes new gas customers by socializing costs across existing customers. Staff also

[14] WGL at 22-27.
[15] Staff Comments at 47-48.

noted that reversing this policy would result in new customers subsidizing existing customers, whose gas line extension costs are embedded in rates.

<u>Commission Decision</u>

Currently, new gas service and main line extensions are encouraged by subsidies that reduce or eliminate any charge to the new customer for such extensions. Many, though not all, of the subsidies offered appear to be based on easy-to-apply tests (such as offering the first 100 feet of service line extension at no cost), rather than any type of detailed, economic analyses supporting the amount of the subsidy.[16]

These and similar tariff provisions mask the true cost of extending gas service to a new customer, even though such an extension may not be economically justified over the

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[16] For example, Baltimore Gas & Electric Company's ("BGE") website states that "[i]f you already have a gas main running down your street, you may be eligible to have the gas service line installed to your house at no additional cost to you." *See* www.bge.com, Gas Conversion - For Your Home.

BGE's tariff provides, with certain caveats, that for standard residential extensions where no main line extension is required, there is no cost for a residential service line extension up to 150 feet. Beyond that, the customer would pay an additional $21.81 per foot for the portion greater than 150 feet. BGE Tariff, Section 8.2.

Similarly, for residential heating service extensions, with certain caveats, Columbia Gas of Maryland ("Columbia") will install, at Columbia's expense, up to one hundred fifty (150) feet of service line from its main to the customer's meter; for extensions in excess of 150 feet, the customer may be required to pay for the entire actual cost of such excess length. Columbia Gas's Tariff, Rules and Regulations Governing the Distribution and Sale of Gas, Section 8, Extensions, Section 8.1.1.1, Residential Service Connections for Gas Heating. With respect to main line extension, for residential heating extensions, with certain caveats and if determined to be feasible, Columbia will provide an extension up to a distance of one hundred (100) feet without cost to a customer; and amount in excess of this amount may result in an additional charge pursuant to a formula included in the tariff. *Id*. at Section 8.2.1. *See also*, *Id*. at Section 8.2.2 and 8.2.3.

See also, WGL Tariff, General Service Provisions, 13. Installation of Service Pipes and Connections ("Upon application for connection between a gas main and a building to be supplied with gas, the entire installation of the gas service pipe and connections from the main to the meter shall be made by the Company. This service pipe shall be of the size and type prescribed by the Company"); *Id.* at 14. Economic Evaluation of Facilities Extension ("Where it is necessary to extend or enlarge its mains to supply gas service to a Customer or group of Customers, the Company will bear the cost of the necessary extension or enlargement up to the amount determined by the economic evaluation of facilities extension. The remainder of the cost of the extension or enlargement, if any, shall require a non-refundable contribution to the Company by the Customer or Customers desiring gas service.")

life of the new facilities. Moreover, as demonstrated, there is no uniformity to the subsidies provided by the various gas companies.

The energy picture in Maryland, as in other states, is shifting in very fundamental ways. The State has adopted a policy of reducing dependence on fossil fuels, and focusing on renewable energy. Maryland's climate goals are set forth in the CSNA, which requires Maryland to reduce its greenhouse gas ("GHG") emissions by 60% from 2006 levels by 2031, and to achieve a net-zero status by 2045. All sectors of the economy emit GHG through the production and use of energy. For example, the residential sector uses natural gas for ranges, home heating, and other applications, which contribute to GHG emissions, including carbon dioxide and methane.[17]

The Commission finds that Maryland's energy policies, which call for continuing reductions in greenhouse gas emissions and greater electrification,[18] may no longer be compatible with the status-quo for how gas line extensions are funded.[19]

Given that the first of these deadlines is only six years in the future, and the second is 14 years beyond that, there are legitimate reasons supporting elimination of the current policy allowing for subsidies to be provided for gas service and main line extensions for infrastructure expected to last decades.

To the extent that subsidies encourage more natural gas production and use, they are inconsistent with the goals set by CSNA. While natural gas must play a role during that

[17] See https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions (last visited February 11, 2025).

[18] *See* SB 528(2022) (the "Climate Solutions Now Act"), PUA § 7-701 *et seq.* (establishing the renewable energy portfolio standard).

[19] The Commission notes however, that the road toward meeting Maryland's climate goals has not been fully marked out, and the role of natural gas in that process remains unclear and may shift over time, as occurred in Chapter 625 of the Laws of Maryland 2025, which revised numerous laws relating to gas consumption and distribution.

transition, the Commission is persuaded that new natural gas customers should pay the full cost of extending service to them, thus minimizing any future potential for stranded costs with respect to new extensions, and reducing any subsidization of gas extensions. A customer that prefers to use natural gas should, therefore, be expected to pay the actual cost of obtaining that service without artificial incentives to do so. The Commission is not removing customer choice by eliminating the gas line extension subsidies. Customers may continue to elect their choice of fuel. This new direction is a neutral stance, neither subsidizing nor discouraging new gas extensions.

Moreover, a change in the extension policy at this time is consistent with traditional ratemaking principles. Basic cost causation principles dictate that to the degree possible, the entity causing the cost should be the entity that bears the cost. Given the relatively short time horizon for achieving net-zero emissions status, there are legitimate issues concerning whether any investment in new gas service and main line extensions will be fully recovered through rates over the lifetime of those facilities. Under the current utility policies, ratepayers could be faced with recovery of stranded costs resulting from those extensions in the future for the reasons discussed above. By requiring new customers to pay the cost-of-service connection "up front," stranded costs for those facilities will be avoided, and costs will be paid by the specific customers who benefit from the extension.

The Commission is not persuaded that this decision should be delayed pending a more detailed review of the future of natural gas and electric services in Maryland. Regardless of whether natural gas use declines or increases in the near- or long-term future, the Commission's action here is warranted. Should gas use decline, fixed costs of the gas system will be spread over a declining customer base, a result that can be somewhat mitigated by limiting further increases in extension costs. Conversely, should gas use increase, the elimination of subsidies for gas extensions will nevertheless send proper price signals to customers, while mitigating any future stranded cost concerns.

The Commission also observes that the use of alternative methods to mitigate stranded costs, such as exit fees, does not adequately address the issue of stranded costs. It may be argued that a customer could pay off any remaining balance associated with the cost of extending service if that customer later abandons natural gas. However, the Commission has concerns about the ease and fairness of enforcing exit fees, particularly with respect to residential customers.

The Commission observes that operational and maintenance ("O&M") costs for the natural gas system will continue to be recovered through base rates paid by all gas customers, existing and new. The ratemaking process ensures that utilities have sufficient resources to operate and maintain a safe and reliable system. The base rate revenue requirement covers such items as normal maintenance and upkeep, leak detection and repair, employee salaries, worker compensation, materials, etc.

Therefore, pursuant to the authority in *Annotated Code of Maryland*, Public Utilities Article ("PUA") § 2-112, § 2-113, § 4-102, and § 4-201, the Commission concludes that, on the basis of the record as developed in this docket, a revision to current gas service and main line extension policies is in the public interest.

Commission Staff is directed to draft regulations for Commission consideration as necessary to implement the directives of this decision. Those regulations should respect and address the following principles:

(1) The natural gas service and mainline extension policy shall apply to all gas utilities, and all combination gas and electric utilities, subject to the Commission's jurisdiction;

(2) the proposed regulations shall apply to both residential and commercial customers;

(3) the proposed regulations shall specify the method by which the cost for new gas service and/or main line extensions will be determined. The method shall be either (1) a case-by-case determination utilizing actual costs, or (2) a formula, to be revised on a regular basis, utilizing actual current construction costs to determine a cost per foot or similar charge for both main and service lines, taking into account differing costs for various utility service territories or geographic locations;

(4) the proposed regulations shall specify whether costs to be recovered from a new residential gas customer must be paid in full immediately, or if they may be recovered over a reasonably short time period following construction of the facilities; and

(5) the proposed regulations may provide for some form of appeal process if the customer does not agree that the costs assessed for new service are consistent with the regulations.

Utilities, customers, and interested parties will, through the rulemaking process, have a full opportunity to comment on the proposed regulations.

2. Gas Supply and Pipeline Capacity Procurement Practices

a. <u>OPC</u>

OPC's Petition argued that gas companies' current procurement practices for gas supply and pipeline capacity are ripe for near-term and long-term examination.[20] OPC summarized current gas utility planning as follows:

> The gas companies' current procurement practices for gas supply and pipeline capacity are documented in filings made with the Commission each year. Companies file annual capacity plans, extending for a five-year forward period.

[20] OPC Petition at 37-38.

> (footnote omitted). Through these plans, the gas companies disclose their long-term commitments for gas pipeline capacity to meet demand annually and during colder periods. Gas supply procurements are reviewed during annual evidentiary hearings, pursuant to PUA § 4-402(d). The gas companies appear to determine how much gas supply and pipeline capacity to procure by using econometric analysis to estimate how customer growth, weather, and other drivers have impacted demand historically, then projecting values for those drivers going forward to forecast demand in the future.[21]

In the near-term, OPC argued that the Commission should immediately require gas companies to align their procurement strategies with the CSNA, as well as with projections that gas sales will drop over time.[22] Likewise, with respect to long-term planning, OPC urges the Commission to proactively institute a comprehensive process to review such plans, as discussed in OPC's petition.[23]

b. <u>WGL</u>

WGL argued that OPC is incorrect that its procurement strategies are misaligned with future sales volumes and demand trends.[24] It stated that it has the ability to release capacity as described in the Capacity Release Rules of the Federal Energy Regulatory Commission ("FERC").

c. <u>Staff</u>

Staff disagreed with OPC's contention that gas company procurement practices fail to plan for future gas demands, and with OPC's demand that an immediate review of

[21] *Id*. at 37.
[22] *Id.*
[23] OPC Petition at 9-10.
[24] WGL Comments at 21.

gas procurement policies must occur.[25] Staff pointed to the annual procurement filings, which the Commission reviews and which focus on whether gas companies have procured sufficient capacity in a cost-conscious manner. Staff argued that gas supply procurement operates on a short timeline that allows for rapid adjustment by companies to changes in demand.

Staff also argued that the processes and timelines for procuring gas supply and pipeline capacity are completely different and need to be considered separately. Staff further argued that the possibility of a gas company failing to procure sufficient pipeline capacity could result in either extremely high prices to acquire capacity, or an inability to meet the company's service obligations.

Commission Decision

OPC has requested that the Commission immediately institute proceedings to determine whether gas companies should realign their supply procurement strategies to comply with the CSNA and related concerns. The Commission observes that natural gas procurement practices are currently reviewed on an annual basis. Through the operation of a purchased gas adjustment mechanism, a gas company passes changes in the cost of gas purchased from its suppliers on to its customers.[26] As explained in the monthly Gas Commodity Fact Sheet compiled by the Commission:

> With the exception of the Baltimore Gas and Electric Company, every gas utility in Maryland charges an adjustment factor for the cost of purchased gas, which is

[25] Staff Comments at 45-47.

[26] The Gas Adjustment Factor is referred to as (1) the Gas Commodity Price Factor by BGE, (2) the purchased gas adjustment by Columbia Gas, and (3) the purchased gas charge by WGL. Each of four gas companies that are subject to Commission jurisdiction that are considered minor in size has a purchased gas adjustment charge. The four companies are: Chesapeake Utilities, Easton Utilities Commission, Elkton Gas–NUI, and Emmitsburg Gas District–PPL.

> based on the actual cost of gas. For the Baltimore Gas and Electric Company, the monthly factor is calculated on a market-based rate. All adjustment factors are reconciled to actual costs on an annual basis. Every utility using an adjustment calculation is subject to a formal hearing before the Commission annually.[27]

The annual review includes a public hearing or hearings, either before the Commission or a Public Utility Administrative Law Judge. For example, in 2023, the Commission conducted eight purchased gas adjustment charge proceedings. As previously observed, these proceedings review changes in natural gas charges that result in increases or decreases in the cost of natural gas, including any supplier refunds.

OPC and other parties can and should use these proceedings to determine whether the gas companies have supply contracts and related assets that are appropriately aligned to serve current and forecasted requirements. Witnesses for OPC and Commission Staff have the opportunity to investigate the filings through discovery and cross examination. Moreover, OPC and other parties are free to make relevant arguments concerning gas supply issues within those dockets by filing responsive testimony, by conducting cross-examination, and by providing oral argument and briefs.

The Commission finds that issues concerning current and ongoing gas company procurement practices can be adequately addressed in the annual purchased gas charge dockets. The Commission is not persuaded that a higher-level policy change is necessary on this issue at this time. The Commission may revisit these issues in a future docket.

[27] *See e.g.,* Gas Commodity Fact Sheet, November 2024.

3. STRIDE

a. OPC

In its Petition, OPC argued projected decreases in long-term gas demand undercut the economic value of the gas distribution replacement projects that are central to the utilities' STRIDE programs because declining numbers of future customers may face ever-rising costs to cover the long-term amortizations of no-longer-useful infrastructure, which may ultimately result in stranded costs without sufficient customers to support them.[28]

b. Commission Staff

Staff noted that STRIDE investments have two, possibly conflicting, effects regarding Maryland greenhouse gas reduction goals: they directly reduce emissions, but they have lifespans of 40 years or more, which may lead to stranded costs.[29]

Nonetheless, Staff argued that the Commission cannot preclude continued gas company participation in STRIDE without amendment of the statute, specifically PUA § 4-210.[30] Staff also argued that, while the Commission can limit or deny a STRIDE program, it must balance climate change considerations with public safety concerns.

Commission Decision

On May 20, 2025, Governor Wes Moore signed into law HB1035/SB937, the Next Generation Energy Act, which became effective June 1, 2025, and which made several

[28] OPC Petition at 27-36.
[29] Staff at 17-18.
[30] *Id*. at 27.

changes to the Public Utilities Article including amending the STRIDE statute.[31] Due to these amendments to the STRIDE law, which the parties have not had an opportunity to comment on, the Commission does not believe it is appropriate to address the concerns discussed above, which were based on the previous STRIDE statute. If after reviewing the STRIDE statute, as amended, parties believe additional action is appropriate, they may re-petition the Commission based on the amended statute.

IT IS THEREFORE, this 13th day of June, in the year of Two Thousand Twenty-Five, by the Public Service Commission of Maryland, **ORDERED** that Commission Staff file proposed regulations on gas line extensions, as described above, by December 1, 2025.

/s/ Frederick H. Hoover, Jr.

/s/ Michael T. Richard

/s/ Kumar P. Barve

/s/ Bonnie A. Suchman

Commissioners[32]

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[31] *See* Chapter 625, Electricity and Gas - Emissions Reductions, Rate Regulation, Cost Recovery, Infrastructure, Planning, Renewable Energy Portfolio Standard, and Energy Assistance Programs (Next Generation Energy Act), PUA § 4–210.

[32] Commissioner Odogwu Obi Linton did not participate in the Commission's decision in this matter.