

**BEFORE THE
MARYLAND PUBLIC SERVICE COMMISSION**

PETITION OF THE OFFICE OF
PEOPLE’S COUNSEL FOR NEAR-TERM,
PRIORITY ACTIONS AND
COMPREHENSIVE, LONG-TERM
PLANNING FOR MARYLAND’S GAS
COMPANIES

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Case No. 9707 Phase II

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OPENING STATEMENT BY KENJI TAKAHASHI

Good morning. My name is Kenji Takahashi. I am a Principal Associate at Synapse Energy Economics, testifying today on behalf of the Office of People’s Counsel.

My pre-filed direct and rebuttal testimony in this case addresses gas demand forecasting and long-term system planning, and how those practices affect future gas system investment and costs to customers. Today, I would like to highlight three major points from my testimony.

First, my testimony concludes that changing market conditions and policies are likely to result in lower gas demand than the utilities’ current forecasts, creating risks of higher rates for customers.

Recent historical data show that total gas consumption has generally been flat or declining over the past decade. Meanwhile, residential consumption per customer has been steadily declining for BGE, WGL, and Columbia. Historical trends do not tell us exactly what future demand will be, but these trends should make us question assumptions of continued future growth.

At the same time, Maryland’s heating market is changing. The number of households using electricity as their primary heating source have grown much faster than those using gas, and around 2021 electric heating surpassed gas heating as the most common primary heating source.

These market changes are likely to be reinforced by current and forthcoming policies, including the Building Energy Performance Standards, EmPOWER’s electrification programs, the Clean Heat Standard, and the Zero-Emission Heating Equipment Standard.

Taken together, these trends and policies are likely to lead to lower annual gas sales, customer counts, and design-day demand than what the utilities currently forecast.

If the utilities continue distribution system investments at similar levels while annual gas sales decline, the same or increasing system costs would need to be recovered over lower gas sales. If customer counts also decline, those costs would need to be recovered from fewer customers. This creates substantial upward pressure on rates.

Higher rates can, in turn, encourage additional customers to leave the gas system, which further concentrates costs on remaining customers and increases the risk that gas system assets become underutilized or stranded before their costs are fully recovered.

Second, I recommend that the Commission require forward-looking scenario analysis to address uncertainty and manage the resulting risks to customers.

Because the timing and magnitude of future demand changes are uncertain, the utilities should examine a reasonable range of plausible futures rather than rely on a single business-as-usual forecast. Those scenarios should reflect different levels and timing of electrification, fuel switching, and energy efficiency.

But scenario analysis should not stop with the demand forecast. It should show how much gas supply procurement and gas system investment are needed. That would allow the Commission and the utilities to assess whether planned investments remain justified or could be reduced, deferred, or avoided—including through non-pipeline alternatives.

Third, I recommend that the Commission require a more transparent and consistent framework for design-day planning and empirical validation of design-day demand forecasts.

Reliable service during very cold weather is important. But the utilities use substantially different standards for determining the extreme weather conditions for which they plan. For example, BGE uses conditions corresponding to approximately a 1-in-51-year event, while Columbia uses a 1-in-10-year standard.

These differences can materially affect projected peak demand and gas supply and capacity needs. Yet there is no consistent framework for evaluating and justifying these different assumptions.

The utilities should also empirically validate their design-day demand forecasts. The historical data used to develop these models do not include observed gas demand under comparable design-day conditions. The utilities should therefore validate their models against observed demand during extreme cold conditions.

To address these concerns, I recommend a transparent and consistent framework for design temperatures and other design-day assumptions, with empirical validation of the resulting forecasts.

The two planning improvements I discussed—forward-looking scenario analysis and more consistent and empirically validated design-day planning—would help the utilities make prudent long-term system investment decisions and reduce the risks I described in my first point.

Rather than planning as if nothing is changing, the Commission should require forecasting and long-term gas system planning that better account for changing market conditions, policy impacts, and uncertainty. This would reduce the risk of unnecessary gas system investments, stranded assets, and higher rates for customers.