



October 16, 2023

The Honorable Serena McIlwain
Secretary of Environment
Maryland Department of Environment
1800 Washington Blvd.
Baltimore, MD 21230

Via email – susan.casey1@maryland.gov

Re: Maryland Pathways Report – Comments and Recommendations

Dear, Secretary McIlwain:

NAIOP represents 22,000+ commercial real estate professionals in the United States and Canada. Our Maryland membership is comprised of a mix of local firms and publicly traded real estate investment trusts that have long-standing investments in Maryland but also have experience in national and international markets. NAIOP members build and manage office, mixed-use, multi-family, and warehouse developments that meet the changing ways that people work, live, shop and play.

NAIOP supports adoption of responsible strategies and, technically sound regulations designed to reduce greenhouse gas emissions on schedules and using methods that minimize economic disruption, maintain stable energy markets, and present the public with least cost and practical compliance options. On behalf of our member companies, I am writing to offer comments and recommendations on Maryland’s Climate Pathway (the Climate Pathway).

The authors of the Climate Pathway have delivered a plan that meets the numerical targets set in the Climate Solutions Now Act (CSNA), but the deep and rapid emissions reductions required by the CSNA result in a set of extremely challenging and uncertain policies that must be implemented by Maryland and other states in a relatively short, eight-year period.

The Climate Pathway begins by assuming that the current policies modeled for the 2030 Green House Reduction Act Plan (GGRA Plan) will be fully funded and successfully implemented. These policies are expected to account for 26 MMTCO_{2e} (million metric tons of CO₂ equivalents) of the roughly 36.6 MMTCO_{2e} of emissions reductions required between 2020 and 2031. There is still a considerable amount of uncertainty about the ability of the state and regulated entities to complete the current GGRA Plan policies on the timeline required. Stacking the Climate Pathway assumptions on top of the GGRA Plan assumptions unreasonably increases expectations.

The current policies include the Building Energy Performance Standard which will require the replacement of space and water heating equipment serving hundreds of millions of square feet of commercial space and hundreds of thousands of apartment and condominium units. Much of the work will be expected between 2026, when emissions limits are issued by MDE to building owners and occupants, and the first compliance deadline in January of 2030. The inflation, supply chain and interest

rate difficulties that have caused reconsideration of the timing and capitalization of off-shore wind energy projects are also severely impacting commercial construction costs and the availability of mechanical equipment. It is unrealistic to assume the rate of change in the building sector will meet the expectations of the Climate Pathway.

Another related current policy expects emissions reductions from Smart Growth land use policies. Many of the strategies in this area are unfunded and / or require land use changes by local governments. While there may be long-term benefits from compact development patterns, the nature of land use planning suggests that it may take decades for these types of changes to the built environment to be realized in the form of emissions reductions.

The Climate Pathway assumes the retirement of all Maryland's coal-fired power plants by 2025 – something the owners of the plants intend to do. However, this summer the PJM grid operator concluded that the closure of the Brandon Shores power generating facilities in 2025 will likely result in brownout and blackouts in the Baltimore region. The risk of brownouts and blackouts will continue until 2028 and will cease in that year only if \$700 million in infrastructure upgrades are completed in the meantime.

Of the 10.6 MMTCO_{2e} of emissions reductions sought by the Climate Pathway, nearly half, 4.8 MMTCO_{2e}, is expected to result from an emissions cap and fee program. The accompanying narrative credits the cap and invest program with hastening the closure of the state's natural gas power plants and converting others to carbon capture and sequestration.

The cap and invest program is referred to as a theoretical program that was not modeled. It is hard to understand how high the prices of emissions allowances would have to be set to induce the early retirement of Maryland's natural gas power plants. The costs of emissions allowances paid by power plant operators will certainly be passed on to utility customers. As the Brandon Shores example illustrates, plant closures are not solely within the authority of State officials and may not happen on the preferred schedule. This could trap utility customers in a prolonged period of high assessments from the cap and fee scheme. Since the idea has not been modeled there is also no clear indication of how revenues from the fee would be spent to reduce emissions.

With the leverage created by emissions cap and fee program, the Climate Pathway anticipates that natural gas power generation in the state will fall by 95% between now and 2031. At the same time, electrification of buildings and cars increases electricity demand from 63 to 77 TWH.

The pace of new, in-state power generation does not keep pace with retirements or the increased electricity demand. One reason is that the plan shows a lower level of confidence that off-shore wind power projects will be operating during the planning period. Off-shore wind accounts for 4.7 TWH of generation in the Climate Pathway compared to 10.8 TWH under current policies. Another influential factor is the way that wind and solar are measured for capacity. The intermittent performance characteristics of wind and solar mean that it will take approximately 5.2 MW of solar or 3.9 MW of off-shore wind to replace 1 MW of retired natural gas or coal fired electricity generation.

The Climate Pathway anticipates that by 2031 in-state power generation will fall from 51 to 36 TWH. Reliance on power imported from other states nearly doubles increasing from 23 to 40 TWH amounting to 53% of electricity generation in 2031. This increase in Maryland's reliance on out of state electricity imports would come over the same time period that the PJM grid operator is warning of "resource

inadequacies” driven, in large part, by a mismatch between the timing of fossil fuel power plant retirements and the commissioning of replacement generating facilities in the PJM states.

The Climate Pathway provides only one, steep, technically narrow and speculative policy scenario. By way of comparison, the 2030 GGRA Plan modeled four policy scenarios. One variation, known as the “optimistic scenario” achieved emissions reductions nearly the same as those in the Climate Pathway but did not feature an emissions cap and fee program, required only 21% imported power, and needed less electric capacity. There is little doubt that something similar to the “optimistic scenario” would be less costly to implement and carry less uncertainty than the Climate Pathway.

MDE and the General Assembly should be looking at alternative policy scenarios, considering less aggressive timelines, and return to net emissions accounting to allow natural sequestration / carbon sinks to be counted toward the state’s 2031 climate goals. These changes will keep Maryland in the leading group of early climate actors but do so in a more pragmatic way that provides a more cost-effective and technically feasible pathway to implementation.

Thank you for considering NAIOP’s perspective.

Sincerely,



Tom Ballentine, Vice President for Policy
NAIOP Maryland Chapters -*The Association for Commercial Real Estate*