



July 29, 2022

The Honorable Gabe Albornoz, President
Montgomery County Council
Via Council Web Portal: mongomerycountymd.gov

Oppose: CB 13-22 – All-Electric New Construction and Major Renovations

Dear President, Albornoz and Council Members:

The NAIOP Maryland Chapters represent more than 700 companies involved in all aspects of commercial, industrial, and mixed-use real estate including many of the largest commercial real estate companies in Montgomery County.

NAIOP's membership is comprised of a mix of local firms and publicly traded real estate investment trusts that are invested in the future of Maryland but also have experience in national and international markets. Many of NAIOP's leading companies have adopted portfolio-wide net-zero commitments. The broad commitment of our members to high performance buildings is one of the drivers behind Maryland's decades long position among state leaders in the rate that LEED certified buildings are brought to market. NAIOP supports adoption of least-cost strategies and responsible, technically sound regulations designed to reduce greenhouse gas emissions on schedules and using methods that minimize economic disruption and result in an orderly energy transition for building owners and occupants.

I am writing to offer several points that underly NAIOP's opposition to CB 13-22 which would require Montgomery County to adopt an all-electric building code for new construction and major renovations.

- 1. Utility Scale Energy Transition Requires System-Wide Coordination Rather than Patchwork of Local Laws** – Electrifying the building and transportation sectors will have financial and service-related implications for the utilities that serve Montgomery County and their customers throughout the region. In an informational letter to legislators during the 2022 General Assembly Session, [The Maryland Public Service Commission warned of a gas price death spiral](#) caused by the shift of operating costs onto customers who remain on the gas system as commercial and multi-family buildings electrify and leave. The county's Climate Action Plan includes interim milestones to electrify 85% of passenger vehicles and 75% of existing commercial buildings. Concurrent electrification of cars, heat and hot water in buildings will require significant changes to the electric service at buildings - both new and existing. PEPCO and Maryland's other publicly owned electric utilities have advised caution about how quickly their distribution infrastructure should be expected to accommodate abrupt increases in demand. These and related issues are being studied by the Public Service Commission at the request of the General Assembly with a report due in 2023. The results of the Public Service Commission studies will provide valuable information about the readiness of utility infrastructure, impacts on rate payers and insights about how to effectively sequence the transfer of buildings and automobiles from fossil fuels to zero carbon energy sources.
 - **Recommendation:** Montgomery County should allow the Public Service Commission to complete its evaluation of grid readiness and rate payer impacts before establishing new code requirements and deadlines for new construction and major renovations.
- 2. NAIOP Opposes Decoupling from the National Building Codes** - Decoupling from national building codes and writing a local all-electric construction code raises concerns that design teams will be forced to use unproven technologies or meet costly, untested code requirements. The bill's narrow and prescriptive requirement for only an all-electric construction code crowds out the use of renewable fuels and other decarbonization or net-zero pathways that could be important least-cost alternatives, especially for major renovations. The two governing bodies that write the mechanical, building and energy codes – *The International Code Council [ICC]* and *American Society of Heating Refrigeration and Air Conditioning Engineers [ASHRAE]* – have both accelerated the development of codes, standards, evaluation tools and technical guidance focused on carbon reduction that will provide a roadmap for net-zero carbon construction. These organizations have the testing capacity and

expertise to ensure that code requirements achieve carbon related performance targets in ways that are technically feasible, commercially available, and cost effective for builders and occupants.

- **Recommendation:** Montgomery County should coordinate adoption of its building codes with International Code Council's development of codes, standards, and guidance on carbon focused construction practices. Doing so would allow the county to follow a technically sound and managed transition to low-carbon and net-zero carbon construction.

3. Electric Heat Pump Systems Do Not Necessarily Scale Up Well for Large Buildings – While it is less challenging to electrify new construction than existing buildings, even in new construction current electric heat pump and heat pump hot water technologies are often better suited to smaller residential and commercial buildings. For larger buildings, system designs become complicated by limitations on refrigerant line length, roof and basement space available for equipment. For some applications such as water heating, there are limited all-electric equipment options in the market that can meet the energy efficiency, health and comfort needs of large multi-family buildings. While there has been some advancement in development of residential cold climate heat pumps, improvement is needed for commercial equipment. Declines in both operating and capital costs of commercial equipment are necessary to close the feasibility gap between small and large buildings.

- **Recommendation:** Montgomery County should focus first on small buildings and uses that have low space and water heating needs.

4. Notes About the MD Commission on Climate Change's Recommendation – The council heard testimony implying that this bill is consistent with recommendations made by the Maryland Commission on Climate Change. I am a member of the Commission's Mitigation Working Group and want to highlight two things for the council's consideration. First, the commission recommended adopting an all-electric construction requirement subject to a cost-effectiveness test. CB 13-22 would require all-electric construction regardless of capital and operating cost considerations. Second, the consultant's study on electrification of new commercial construction used to justify the recommendation as cost-effective is based on idealized future costs for the year 2035. The study assumes that HVAC equipment costs in 2035 will be about 70% lower than what our members were paying when the study was conducted. According to the graph below from the St. Louis Federal Reserve, commercial HVAC costs increased by 29.4% between June of 2020 and June of 2022. Even if we were to agree with the study's cost assumptions, which we do not, those favorable, lower costs, will not be in place in 2024 when the provisions of CB 13-22 would go into effect.



For these reasons, NAIOP respectfully recommends the council vote no on CB 13-22 and work towards a more wholistic approach to building decarbonization. NAIOP's member companies look forward to working with the council and other stakeholders to manage the complex issues related to the energy transition and climate mitigation.

Thank you for your consideration.

Sincerely,

A handwritten signature in blue ink, appearing to read "T.M. Ballentine", is written over a faint, light blue circular stamp or watermark.

Tom Ballentine, Vice President for Policy

NAIOP Maryland Chapters -*The Association for Commercial Real Estate*