Hypothetical BGE Case Study with Assumed Prevailing Wage Cost Increases

Summary Table

	Proposed Rate Increase	Approved Rate Increase Without Prevailing Wage	Added Increase w/Prevailing Wage 2% Cost Impact	Added Increase w/Prevailing Wage 5% Cost Impact
Revenue Increase	$67.6 million	$54.0 million	**$1.45 million**	**$3.47 million**
Residential Bill Increase		$3.53	**$0.09**	**$0.22**
Total Bill	$76.38	$75.12	**$75.21**	**$75.34**

Key inputs and assumptions for these calculations:

- Assumes 2% and 5% increases in BGE infrastructure costs from prevailing wage floor consistent with estimates by the Maryland Department of Legislative Services.

- Uses the $653 million delta between BGE's $1,245,166 adjusted test-year rate base in 2015 and its $1,898,929 adjusted test-year rate base in 2019 as a proxy for the capital expenditures that might have increased because of the prevailing wage. It then applies the 2 and 5 percent cost increases to the entire $653 million delta as follows:
  - $653 million x 2% = $13.075 million
  - $653 million x 5% = $32.7 million

- The next step in the methodology was to increase BGE's 2019 adjusted test-year rate base of $1,898,929 by the assumed capital cost increases from the prevailing wage, based on the $653 million rate base delta for each cost scenario—2% and 5% as follows:
  - 2% Scenario: $1,898,929 + $13,075 = $1,912,004
  - 5% Scenario: $1,898,929 + $32,688 = $1,931,617

- The next step was to calculate the total dollar rate increase associated with each of these adjusted rate base amounts, using the exact same formula that BGE used to calculate its proposed $67.6 million rate increase in Company Exhibit DMV-2. The $67.6 million increase increased minimally in each scenario as follows:
  - 2% Scenario: $1.45 million
  - 5% Scenario: $3.47 million

- Finally, the potential residential bill impact was calculated by simply working off of the reduced $54 million overall rate increase approved by the Commission as follows: (a) reduced the estimated revenue impacts of the prevailing wage by 20% to reflect the 20% reduction in the overall rate increase approved by the PSC; (b) allocated the revenue impact to the residential class using the PSC's approved allocation formula; and (c) divided that number into the number of residential customers and calculated the monthly bill impact accordingly under each scenario:
  - 2% Scenario: $0.09
  - 5% Scenario: $0.22

(over)

These possible bill increases identified on the previous page are clearly minimal. And they also likely overestimate bill impacts for several reasons:

- First, not all utility construction work is affected by the prevailing wage proposal and, in fact, above-ground construction is not impacted at all.

- Second, only a portion of construction costs are attributable to labor and some portion of current labor costs already reflect the prevailing wage.

- Third, the overwhelming majority of peer-reviewed studies and Maryland Department of Legislative Services have all concluded that prevailing wages increase worker productivity and generally have a minimal impact on construction project costs.

- Fourth, the regulatory rate-setting process substantially mitigates rate impacts that might otherwise result from specific factors. The State's regulatory commission sets utility rates through a rigorous process that involves detailed review and the application of multiple factors. For example, relatively small reductions in only one input, the Company's authorized ROE, can have a substantial downward impact on a utility's rates simply that could easily offset any modest increase in capital costs resulting from a prevailing wage.