

March 3, 2026

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Letter of Information – House Bill 1532 – Continuing the Next Generation Energy Act

Potomac Electric Power Company (Pepco), and Delmarva Power & Light Company (Delmarva Power) submit this letter of information for consideration for House Bill 1532. House Bill 1532 updates the 2025 Next Generation Energy Act, introducing several changes to Maryland’s EmPOWER program, multi-year rate plan structure, and large-load rate structures.

EmPOWER Program Goals and Cycle Recommendations

Maryland can maintain the benefits of EmPOWER while significantly improving affordability. EmPOWER is Maryland’s flagship energy program. Over the last 17 years, EmPOWER has not only resulted in major savings for customers and grid benefits, but the Program has also been a stable driver of economic growth supporting Maryland businesses, trade allies, and other facets of the State economy. Our State and its utilities have been heralded for our leadership in innovation and energy/GHG reduction within our EmPOWER programs due to their proven effectiveness. Drivers of rising surcharges are structural, not inevitable. **With targeted legislative adjustments, policy makers can improve the affordability of the program and ensure it remains financially sustainable and provides benefits to customers in the years ahead.**

House Bill 1532 would scale back EmPOWER electricity (and GHG equivalent) savings which, under current law, are 2.25% from a 2026 baseline, for 2025 and 2026, and 2.5% beginning in 2027. The bill delays implementation of the 2.5% savings goal until 2029. The bill also shortens the EmPOWER cycle from three years to two years. Pepco and Delmarva Power recommend keeping the three-year program cycle, or even expanding it to four-years to keep administrative costs lower by spreading expenses over a longer period of time. Additionally, successful efficiency programs typically rely on longer planning horizons that give local businesses and contractors who support the program the certainty needed to invest in staffing, training and equipment. Pepco and Delmarva Power caution against shortening the program cycle to ensure that there is not a reduction in participation by local businesses and contractors who are currently participating and implementing the programs successfully.

Additionally, the legislation proposes changing the current EmPOWER benefit-to-cost threshold (B:C) assessment from reviewing at the portfolio level to the program level. Pepco and Delmarva Power understand and support the State’s interest in reducing the overall cost of the EmPOWER program.

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To support that goal, Pepco and Delmarva Power recommend maintaining the B:C assessment threshold at the portfolio level, not at the sub-program level. Diminishing existing cost-effective opportunities underscore the need to plan for future system resources and the ability to design portfolios that address diverse customer needs.

EmPOWER Recommendation:

Pepco and Delmarva Power recommend updating EmPOWER cost recovery mechanism to a new hybrid expense model. Maryland can modernize cost recovery to better align costs with the long-term value customers receive. **By enhancing the expense model from 2024's House Bill 864 and adopting a hybrid cost recovery framework for near-term bill relief, that would smooth out the surcharge:**

- Amortize only those long-life-lived customer investments such as incentives for heat pumps, heat pump water heaters, and weatherization (measures that last 10–20+ years), over reasonable periods to ensure the costs paid by customers better match the benefits they see and any unrecovered amounts would receive the rate of return authorized by the Maryland Public Service Commission (PSC) in a utility's most recent base rate case, the same as all other utility investments and deferrals;
- Continue to fully expense short-lived measures and costs such as program administration, evaluation, and marketing.
- Limits can be placed on the amount utilities can defer each year to ensure the unamortized balance does not balloon and remains manageable.

This recommendation provides immediate, near-term bill relief for the EmPOWER surcharge, around a 10- 30% reduction in the average residential 2026 EmPOWER surcharge.

Third Party Administration

House Bill 1532 requires the PSC to issue a request for information on the use of a third-party, single-implementer program for the administration of the programs and services under the EmPOWER program.

Third-party administration introduces transition risk, uncertainty, and near-term cost increases without proven long-term savings or better performance. Shifting administration of significant portfolios will result in service disruptions, loss of institutional knowledge and key relationships built up over 17+ years. Transition costs are also real and immediate – new IT systems, contracts, participation agreements, data tracking systems, re-trainings, staff transitions – while any hypothetical savings are unproven.

EmPOWER utilities already operate under PSC oversight, evaluation, and cost-effectiveness review. EmPOWER is audited by an independent statewide evaluator to validate claimed savings and evaluated for cost effectiveness. As a regulated entity, utilities are uniquely accountable to the PSC in a way that no third-party would be. The utilities' results are further scrutinized by the PSC's independent evaluator. The resulting process is one of if not the most rigorous evaluation processes for these types of programs in the country. Not to mention as a State overall, utility-administered EmPOWER portfolios are cost effective.

Utility-administration allows programs to be designed and tailored specifically to the customers in that service territory, their housing stock, customer demographics, etc. Maryland is a diverse state and over-indexing on standardization can lead to solutions that do not work for customers. Local presence and trust in demand-side management (DSM) programs takes years to build up. Moreover, DSM programs are also designed to benefit the grid, which only the utilities are responsible for. Third-party administration would result in programs only focused on "hitting a number" rather than designing and implementing programs that provide wider customer and grid benefits.

Multiple studies have been performed to evaluate the four administration structures of DSM programs across the country: utility, state, third-party, and hybrid implementation. A 2019 study from the Brattle Group and a study released in January 2026 by Opinion Dynamics and The American Council for an Energy-Efficient Economy (ACEEE) both concluded that there are pros and cons to each administration model, and none is superior to the others across all dimensions. However, both studies agreed that if affordability is the primary issue at hand, moving to a statewide third-party implementor is not the best course of action as state and third-party implementation have higher transaction costs than utility run programs and the transition itself requires significant startup costs. Maryland's current administration model reflects many of the best practices that these studies recommend.

Large Load Customers

House Bill 1532 creates a new definition of large load customers, revising the threshold in the 2025 Next Generation Energy Act from 100 MW to 25 MW. These definitional changes would result in the expansion of large load customers to include more commercial and industrial customers within the scope of the bill, and not only data centers. Defining large load customers as 25 MW or greater could inadvertently subject a group of customers into a regulatory structure designed for only the most energy-intensive users, resulting in an unnecessarily burdensome regulatory structure.

Reconciliation

The PSC has initiated a “Lessons Learned” proceeding regarding the multi-year rate plan framework. This proceeding aims to evaluate the effectiveness of MYPs and potential enhancements to the framework previously established by the Commission. Pepco and Delmarva Power recommend waiting for the publication of the Commission’s order and accompanying recommendations before proceeding with any additional legislation as the Commission has been studying the recommendations of stakeholders across the energy landscape including that of utilities, PSC Staff, consumer advocates, the Maryland Energy Administration and others.

Pepco and Delmarva Power have significant concerns with the multi-year rate plan provisions included in House Bill 1532, which would:

1. Impose an asymmetrical, one-sided, reconciliation requirement where utilities are unable to recover for any cost variances, even for material items that are out of their control;
2. May allow for reconciliation to refund differences in a utilities’ forecasted revenue requirement and its actual revenue requirement during the term of a multi-year rate plan.

Specifically, the bill establishes that the Maryland Public Service Commission (PSC) may approve the use of a multiyear rate plan for distribution rates only if the plan does not include reconciliation that would “result in additional customer charges” or cost-sharing mechanism “that would result in additional customer charges above the approved revenue component used by the Commission to establish just and reasonable rates.”

House Bill 1532 would bar utilities from proposing any mechanism that adjusts rates to reflect actual, prudently incurred costs, while still allowing mechanisms that only flow savings back to customers. This creates a one-sided, asymmetrical framework that denies utilities the ability to recover legitimate cost variances and fundamentally disrupts the regulatory balance needed to provide reliable service to customers and support long-term system investments. What is missing is any recognition of sound regulatory policy that aligns cost recovery with strong incentives for efficiency and cost control – approaches that drive long-term affordability and are central to Maryland’s established energy policy priorities.

As written, the bill’s one-sided reconciliation requirement would have significant unintended consequences for customers. By forcing utilities to return every dollar of savings while prohibiting recovery of legitimately incurred, unforeseen costs, the bill strips away operational flexibility needed to manage the system efficiently. This asymmetry would discourage utilities from pursuing cost-saving innovations, ultimately leading to higher long-term customer bills, not lower.

Even more concerning, a framework where utilities must absorb all the financial risk without the ability to recover prudent cost variances weakens their capacity to invest in critical customer improvements. Over time, customers would face more outages, slower service improvements or even degradation, and higher costs as necessary upgrades begin to accumulate.

Current law avoids this problem by prohibiting reconciliations altogether, ensuring fairness and stability. Creating a lopsided system where utilities shoulder all risk, but cannot benefit from cost-saving solutions would produce the opposite of what lawmakers intend – higher costs and worse outcomes for Maryland customers.

There are direct and meaningful benefits to customers when ratemaking policy provides the right incentives for utilities to reduce costs effectively and efficiently. Pepco and Delmarva Power consistently maintain that customers are the primary long-term beneficiaries when utilities are encouraged to pursue operational efficiencies. Under a symmetrical framework, whenever a utility identifies cost savings, whether from improved processes, upgraded technologies, or smarter operations – those savings flow back to customers year after year. This structure promotes true, durable affordability and aligns incentives in a way that delivers sustained value to the people we serve.

Pepco and Delmarva Power look forward to continuing conversations with the bill sponsors on ways to refine House Bill 1532 in a way that balances the State's climate goals, the needs of Maryland communities and creates stability for utilities.