



## Position Statement

**Letter of Information**  
Environment & Transportation  
03/03/2026

### **House Bill 1532 - Continuing the Next Generation Energy Act**

Baltimore Gas and Electric Company (**BGE**) submits this letter of information regarding **House Bill 1532 - Continuing the Next Generation Energy Act (CNGEA)**. *House Bill 1532* updates the 2025 Next Generation Energy Act, which introduces several changes to the EmPOWER program, multi-year rate plan structure, and large-load rate structures.

#### **EmPOWER Program Goals and Cycle Recommendations**

*House Bill 1532* would scale back EmPOWER electricity (and GHG equivalent) savings goals which, under current law, are 2.25% from a 2026 base line, for 2025 and 2026, and 2.5% beginning in 2027. The Bill delays implementation of the 2.5% savings goal until 2029. **BGE supports these changes; however, BGE notes that an additional 14% cost savings could be achieved if the goal was to 2%.**

Additionally, the bill shortens the overall EmPOWER program cycle from three years to two years. **BGE recommends keeping the 3-year program cycle or extending it to 4 years** to keep administrative costs lower by spreading expenses over a longer period of time. Shortening the cycle would only increase administrative costs and divert resources focused on delivering results and implementing Commission approved programs. States with similar climate ambitions, such as California, use even longer cycles; California's demand-side management program operates on an eight-year cycle, which reduces administrative costs, and provides greater stability in the market for customers as well as business and trade allies like manufacturers, HVAC contractors, etc. Effective energy efficiency programs depend on longer planning horizons that give local businesses and contractors the certainty needed to invest in staffing, training, and equipment. Shortening the program cycle risks reducing participation and engagement from these partners, which could undermine the successful implementation of EmPOWER.

BGE, headquartered in Baltimore, is Maryland's largest gas and electric utility, delivering power to more than 1.3 million electric customers and more than 700,000 natural gas customers in central Maryland. The company's approximately 3,400 employees are committed to the safe and reliable delivery of gas and electricity, as well as enhanced energy management, conservation, environmental stewardship and community assistance. BGE is a subsidiary of Exelon Corporation (NYSE: EXC), the nation's largest energy delivery company.

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The bill proposes changing the current EmPOWER benefit-to-cost (B:C) assessment threshold from at the portfolio level to requiring residential programs be cost-effective at the sub-program level. This change would disallow less cost-effective but high value programs such as the HVAC and Home Performance with ENERGY STAR Programs. These two programs contribute 40% of BGE’s residential GHG reduction goal. It would be extremely difficult and expensive for utilities to make up the savings lost from these programs. Beyond providing significant GHG reductions, these programs provide more long-term energy savings to customers and are supported by a large network of numerous local HVAC contractors and distributors. Both the HVAC and Home Performance with ENERGY STAR programs are critical to supporting Maryland’s Zero Emissions Heating Equipment Standard goals. If each individual program is required to meet a B:C ratio of 1.0, many of these initiatives could be reduced or eliminated, limiting BGE’s ability to design a balanced portfolio that meets diverse customer needs. More cost-effective programs currently offset those that are less cost-effective, enabling the full portfolio to meet the overall 1.0 threshold. BGE’s overall residential portfolio is extremely cost effective at 2.01:1 based on 2024 verified cost-effectiveness results.

BGE understands and supports the State’s interest in reducing the overall cost of the EmPOWER program. To support that goal, **BGE recommends maintaining a 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

### **Additional EmPOWER Recommendation**

BGE recommends updating the EmPOWER cost recovery framework to a “hybrid cost recovery framework. With a hybrid framework described in more detail below, Maryland can modernize cost recovery to better align costs with the long-term value customers receive. **Enhancing the expense model from 2024 Chapter 539 (House Bill 864-- Energy Efficiency and Conservation Plans) and adopting a hybrid cost recovery framework would provide near-term bill relief by smoothing out the surcharge rate impacts.** A hybrid cost recovery framework consists of the following:

- Amortizing 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 Maryland Public Service Commission (PSC) authorized rate of return authorized in a utility’s most recent base rate case, the same as all other utility investments and deferrals;
- Continuing to fully expense short-lived measures and costs such as program administration, evaluation costs, and marketing.
- Limits can be placed on the amount utilities can amortize each year to ensure the unamortized balance does not balloon and remains manageable.

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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 EmPOWER Administrator**

The bill requires the PSC to issue an RFP for a statewide third-party administrator to run the EmPOWER program. Utilities currently administer EmPOWER under strict PSC oversight, evaluation, and cost-effectiveness review. A statewide independent evaluator audits EmPOWER to verify claimed savings and assess cost-effectiveness. As regulated entities, utilities are uniquely accountable to the PSC in ways a third party would not be. Shifting to third-party administration not only would introduce significant transition risks, and uncertainty, but also would cause near-term costs to increase without proven long-term savings or better performance. Utilities have been administering EmPOWER programs for over 17 years with national acclaim and recognition for being some of the most effective, well-run programs in the country. Utilities have helped Maryland climb the ACEEE State Energy Efficiency Scorecard to 4<sup>th</sup> place nationally.

Under the established framework, BGE has consistently exceeded goals while staying under budget, and based on the most recent evaluation generated \$261M in net benefits in 2024 alone, more than twice the minimum requirement of the primary cost-effectiveness test. Statewide, utility-administered EmPOWER portfolios have also been cost-effective. Utility administration allows programs to be tailored to the specific characteristics of each service territory, housing stock, customer demographic, and community needs. Furthermore, EmPOWER programs are designed to also provide benefits to the grid, for which utilities and not third-parties are responsible for. Independent studies conducted on the topic of comparing different administration models by the Brattle Group in 2019 and by Opinion Dynamics and ACEEE in January 2026 conclude that no single model outperforms the others across all dimensions, but the studies agree that if affordability is the primary concern, moving to a third-party statewide administrator is not advisable. Third-party statewide administrator run programs have higher transaction costs and significant start-up expenses. Further, transitioning a multi-billion-dollar portfolio away from utilities would inevitably cause service disruptions and the loss of 17+ years of institutional knowledge and customer relationships. **We recommend keeping the current Utility administered practice in place as it is best practice.**

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### 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. **We recommend keeping the 100 MW threshold.** A 25 MW threshold is too low and could unnecessarily sweep a broad range of commercial customers into a regulatory structure designed for only the most energy-intensive users, resulting in an unnecessarily burdensome regulatory structure.

### Multi-year Rate Filings and Reconciliation

BGE has significant concerns with the multi-year rate plan provisions included in the CNGEA. Specifically, the bill establishes that the PSC may approve the use of a multi-year rate plan for distribution rates only *if the plan does not include reconciliation that would “result in additional customer charges” or a 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.”* Stated another way, the bill would bar utilities from proposing any mechanism that could ever increase rates to reflect actual costs, while still allowing mechanisms that exclusively flow savings back to customers. **The bill would create a one-sided, asymmetrical framework that removes the utility’s ability to recover legitimate cost variances and fundamentally distorts the regulatory balance needed to ensure reliability and long-term system investment.**

**Under an asymmetrical reconciliation** framework, for example, if BGE has a \$100 revenue requirement, and identifies \$8 in possible cost efficiencies, customers would get an \$8 refund in the following year. However, the customers might end up paying \$100 every year thereafter if the cost efficiencies go unrealized as a result of the structure since the structure is designed such that utilities are incented to spend all \$100. In contrast, with a **symmetrical framework where there is no reconciliation**, the utility can still seek the \$8 in cost efficiencies to the benefit of customers and the utility. Assuming no other changes going forward, the customer would then only be paying \$92 per year afterwards – not \$100 per year. This is real and lasting savings. Without the right incentive structure, the \$8 in cost efficiencies may never be found, and customers end up paying more than they otherwise would every year.

In essence, the bill’s one-sided, asymmetrical reconciliation requirement would have significant unintended consequences for customers. An asymmetrical mechanism could remove essential operational flexibility and fundamentally erode the incentive for utilities to pursue efficiencies. Without a balanced ability to manage both savings and expenses, utilities would be discouraged from developing innovative, cost-effective solutions that ultimately lower long-term customer bills. Creating a lopsided system where utilities cannot benefit from prudent cost-saving decisions would ultimately reduce the very efficiencies lawmakers intend to

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encourage. There are direct customer benefits when good ratemaking policy provides the proper incentives to reduce costs in an effective and efficient manner. BGE underscores that customers, not utilities, derive the greatest long-term advantages when utilities are encouraged to find efficiencies.

*House Bill 1532* also attempts to close what it describes as a “loophole” by banning utilities from including “cost sharing mechanisms” in their multi-year rate plans. But that premise is mistaken. **Earnings sharing mechanisms, or cost sharing mechanisms, are not reconciliations, nor do they function like a reconciliation.** They are long-standing, nationally used performance-based tools designed to give utilities a strong incentive to control costs while ensuring customers share in the benefits when efficiencies are achieved. These mechanisms succeed precisely because they strike a careful balance: they motivate utilities to innovate and operate more efficiently, while providing customers with a direct share of the resulting savings. Eliminating that tool does not protect customers, in fact it removes one of the most effective ways to deliver customer savings.

While the General Assembly should set the policy direction, the detailed design, technical calibration, and ongoing oversight belong with the PSC. These structures involve nuanced incentive design, cost-allocation considerations, and long-term regulatory impacts, areas where the PSC has the technical expertise, analytical capacity, and data access necessary to make informed decisions. Empowering the PSC ensures Maryland benefits from clear legislative intent paired with expert evidence-based implementation. More importantly, PSC has more recently considered these regulatory mechanisms. Even the PSC’s own “lessons learned” process asked stakeholders whether earnings sharing mechanisms should be considered, because they operate as incentive tools, not true-ups or cost trackers. *House Bill 1532* would, however, eliminate a proven, customer-benefiting incentive mechanism based on the incorrect assumption that it behaves like a reconciliation. It does not, and Maryland should not take effective tools off the table based on a misunderstanding.

*House Bill 1532* unintentionally trades long-term affordability for short-term optics. It disconnects action from outcome by discouraging the very improvements that would otherwise benefit customers most. By stripping away the incentive for utilities to pursue efficiencies, the bill removes the very mechanism that turns innovation into ongoing customer savings, including smarter, leaner ways to operate those efficiencies simply never materialize. Customers lose out on permanent reductions in underlying costs savings that would have lowered bills not just once but every single year going forward. Efficiency isn’t just about cost. It’s about a more resilient grid, a cleaner energy future and a system that evolves with the needs of our communities. When you remove the incentive to innovate, you freeze progress at precisely the moment we need acceleration.

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We respectfully recommend adjustments to the bill to refine *House Bill 1532* in a way that balances the State's climate goals, the needs of Maryland communities, and the utility obligation to ensure the reliability of the electric grid.

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