

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 556 (Senator Gallion)
Education, Energy, and the Environment

**Water Companies, Sewage Disposal Companies, and Water and Sewage Disposal
Companies - Rate Consolidation and Limited-Income Mechanisms**

This bill repeals an existing provision that *allows* the Public Service Commission (PSC) to authorize a rate consolidation of two or more water or sewage disposal systems, after providing notice and holding hearings, if they have common ownership and the rate consolidation is in the public interest. Instead, the bill *requires* PSC to authorize a rate consolidation proposed by a public service company in a base rate proceeding involving two or more water “systems” or sewage disposal “systems”; the bill establishes related requirements and conditions, including that PSC may not disapprove a rate consolidation proposal. “System” means an interconnected system of facilities used by a water company, sewage disposal company, or water and sewage disposal company to provide water or sewage disposal services. The bill also applies existing statutory provisions governing limited-income mechanisms to water companies, sewage disposal companies, and water and sewage disposal companies. **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: PSC and the Office of People’s Counsel can implement the bill’s changes using existing budgeted resources. Because it is assumed that most State agencies are not served by the affected companies, State expenditures for water and/or sewage disposal are likely not materially affected. No effect on revenues.

Local Effect: The potential effect on rates for water and sewage disposal services is discussed in the Additional Comments below. No effect on revenues.

Small Business Effect: Potential meaningful. The potential effect on rates for water and sewage disposal services is discussed in the Additional Comments below.

Analysis

Bill Summary:

Rate Consolidation

PSC must authorize a rate consolidation proposed by a water company, a sewage disposal company, or a water and sewage disposal company in a base rate case proceeding involving two or more water systems or sewage disposal systems.

When authorizing a rate consolidation under the bill, PSC (1) must allow the public service company to aggregate the revenues and costs of the water systems and sewage disposal systems for purposes of determining appropriate rates for their customers and (2) may order a gradual adjustment to the rates charged to a system over a period of up to three years until full rate consolidation is achieved.

PSC may not disapprove a rate consolidation proposal. In addition, after PSC has authorized a rate consolidation proposal under the bill, PSC must continue to authorize and maintain the rate consolidation in subsequent rate orders on applications of the public service company pursuant to existing provisions regarding rate changes.

The bill's provisions related to rate consolidations only apply to public service companies that are water companies, sewage disposal companies, or water and sewage disposal companies.

Applicability of Limited-Income Mechanism Provisions

The bill expands the applicability of existing limited-income mechanism provisions (which currently apply to electric companies, gas companies, or gas and electric companies) by modifying the definition of "utility company" under § 4-309 of the Public Utilities Article to include a water company, a water and sewage disposal company, or a sewage disposal company. Broadly, these provisions establish requirements for proposals by utility companies to establish limited-income mechanisms to benefit eligible limited-income customers; they also establish related requirements for PSC. (See Current Law for more information.)

Current Law:

Relevant Definitions in the Public Utilities Article

"Sewage disposal company" means a privately owned public service company that owns or maintains facilities for the disposal of sewage.

“Water company” means a public service company that owns a water plant and sells or distributes water for gain.

Public Service Company Rates – Generally

A public service company must charge just and reasonable rates for the regulated services that it renders. Generally, PSC has the power to set a just and reasonable rate of a public service company, as a maximum rate, minimum rate, or both. A “just and reasonable rate” means a rate that:

- does not violate any provision of the Public Utilities Article;
- fully considers and is consistent with the public good; and
- except for rates of a common carrier, will result in an operating income to the public service company that yields, after reasonable deduction for depreciation and other necessary and proper expenses and reserves, a reasonable return on the fair value of the public service company’s property used and useful in providing service to the public.

Notice of New and Changed Rates

Under § 4-203 of the Public Utilities Article, unless otherwise ordered by PSC, a public service company may not establish a new rate or change in rate unless the public service company:

- provides notice of the new rate or change in rate to PSC at least 30 days before the new rate is established or current rate is changed; and
- publishes the new rate or change in rate, as specified, during the entire 30-day notice period in new schedules or plainly indicated amendments to existing schedules.

Rate Consolidation of Two or More Water and Sewage Disposal Systems

After notice to customers and holding a public hearing and an evidentiary hearing, PSC may authorize a rate consolidation of two or more water or sewage disposal systems if (1) the water or sewage disposal systems have common ownership and (2) the rate consolidation is in the public interest.

“Rate consolidation” means the use of the same or similar rates or tariff schedules of rates for customers of the same class for two or more water or sewage disposal systems even if the systems are not physically interconnected.

“System” is not defined in these provisions.

Limited-Income Mechanisms under § 4-309 of the Public Utilities Article

Chapters 638 and 639 of 2021 authorized utility companies, after PSC approval, to adopt a limited-income mechanism to benefit eligible limited-income customers. The limited-income mechanism may take the form of a program, tariff provision, credit, rate, rider, or other means to assist an eligible limited-income customer to afford a utility service. “Utility company” means an electric company, a gas and electric company, or a gas company; the term does not include a small rural electric cooperative.

A utility company that proposes a limited-income mechanism for PSC approval must include specified information in the proposal, including a detailed description of the proposed mechanism and the rationale supporting the utility company’s proposal for a mechanism to benefit the eligible limited-income customers in the utility company’s service territory. A proposal must allocate the prudently incurred costs of the limited-income mechanism across rate classes.

In evaluating a limited-income mechanism, PSC must consider:

- the degree to which the mechanism promotes affordability of electricity or natural gas for limited-income customers;
- the public interest in allocating the costs of the mechanism between the utility company’s shareholders and rate payers;
- the impact on rates, utility operating costs, customer arrearages, customer disconnections, uncollectible costs, and successful completion of payment plans;
- the ability of a limited-income customer to continue to receive benefits when relocating within the same service territory;
- coordination of benefits under the mechanism with any other public or private assistance that may be available to the customer;
- a minimum level of support or assistance structure to provide equitable availability of limited-income assistance across the State; and
- any other information PSC considers appropriate.

Small Business Effect: According to PSC’s website, the commission currently regulates 22 water and/or sewage disposal companies. To the extent that any affected water and/or sewage disposal companies are considered small businesses, they may benefit from rate consolidation proceedings established under the bill.

Additional Comments: Water and/or sewage disposal rates for services provided by water and/or sewage disposal companies are likely affected by the bill’s rate consolidation provisions. While the bill likely results in a rate decrease in some service areas as companies leverage economies of scale to distribute infrastructure costs across a larger

base, rate increases may occur in some service areas to subsidize broader system improvements. Further, rates for most customers increase to the extent that water and/or sewage disposal companies adopt limited-income mechanisms under the bill (to fund the limited-income mechanism).

The extent to which rates are affected for a particular customer or customer class cannot be reliably estimated at this time. In any event, customers of the affected companies, which are mostly residential but could include local governments and small businesses, are affected by any impact on rates resulting from the bill.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 1164 (Delegate Foley) - Environment and Transportation.

Information Source(s): Public Service Commission; Office of People's Counsel; Department of Legislative Services

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