# Hypothetical BG&E 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 | Added Increase w/Prevailing Wage 10% Cost Impact |
|---|---|---|---|---|---|
| Revenue Increase | $67.6 million | $54.0 million | **$1.45 million** | **$3.47 million** | $6.84 million |
| Residential Bill Increase | | $3.53 | **$0.09** | **$0.22** | $0.43 |
| Total Bill | $76.38 | $75.12 | **$75.21** | **$75.34** | $75.55 |

Key inputs and assumptions for these calculations:

- Assumes 2%, 5% and 10% increases in BG&E infrastructure costs from prevailing wage floor. Note that the 10% scenario is highly unlikely as it is 100% higher than the high end of the impact range estimated by the Maryland Department of Legislative Services.

- Uses the $653 million delta between BG&E'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, 5 and 10 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
  - $653 million x 10% = $65.4 million

- The next step in the methodology was to increase BG&E'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 of the three cost scenarios, 2%, 5% and 10%, as follows:
  - 2% Scenario: $1,898,929 + $13,075 = $1,912,004
  - 5% Scenario: $1,898,929 + $32,688 = $1,931,617
  - 10% Scenario: $1,898,929 + $65,376 = $1,964,305

- The next step was to calculate the total dollar rate increase associated with each of these three adjusted rate base amounts, using the exact same formula that BG&E 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
  - 10% Scenario: $6.84 million (highly unlikely)

- 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 MPSC; (b) allocated the revenue impact to the residential class using the MPSC's approved allocation formula; and (c) divided that number into the number of residential customers & calculated the monthly bill impact under each scenario:
  - 2% Scenario: $0.09
  - 5% Scenario: $0.22
  - 10% Scenario: $0.43

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.