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Testimony from:
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In SUPPORT of SB 506 "An Act concerning Public Utilities – Regulatory Assets -Prohibition"

February 16, 2021

Senate Finance Committee

Chair Kelley, Vice Chair Feldman and members of the Finance Committee. I thank you for the opportunity to testify on this important topic. My name is Mike Haugh and I am a senior fellow in energy policy with the R Street Institute. R Street is a nonprofit, nonpartisan public policy research organization with a mission to engage in policy research and outreach to promote free markets and limited but effective government. I have been involved in energy policy for over 20 years, including eight years working for the Ohio Consumers' Counsel, the residential ratepayer advocate.

SB 506 is an important piece of legislation that will help all Maryland utility customers as they are facing unemployment, utility shutoffs and evictions. Some will say regulatory assets, rate of return and utility accounting are complex topics. Those are not the reason for this legislation, this legislation addresses one thing: utility greed.

As a little background, regulatory assets are set up when utilities incur expenses that are approved by the Maryland Public Service Commission (PSC) to be collected at a later date. Traditionally, utilities can earn a rate of return, or profit, on these assets until they start collecting the costs from customers.

Recently, utilities began to treat certain costs related to the COVID-19 pandemic as regulatory assets. These costs include employee sequestration, facility cleaning, personal protection equipment, lost late payment revenue and other related costs. Baltimore Gas and Electric's (BG&E) most recent report on its incremental COVID-19 costs for 2020 showed net costs of $17.7 million[1]. Given the recently approved 9.5 percent rate of return, this would equate to roughly $1.7 million in profits for BG&E.[2] Allowing a return on these expenses in turn allows a utility to profit on the misfortunes of others. There are too many entities attempting to take advantage of the pandemic, utilities should not be added to that list.

While utility customers are obviously experiencing financial difficulties during the pandemic, utilities are not experiencing the same issues. In its latest earning report Exelon, parent company of BG&E, stated:

> "BGE's third quarter of 2020 GAAP Net Income and Adjusted (non-GAAP) Operating Earnings remained relatively consistent with the third quarter of 2019, primarily due to regulatory rate increases, offset by an increase in various expenses. Due to revenue decoupling, BGE's distribution earnings are not affected by actual weather or customer usage patterns."[3]

Utilities are granted the ability to operate as a monopoly. Laws, rules and regulations protect them from many market and operational risks. Utilities should not be protected from all risks; they need to share in

[1] Maryland PSC Docket PC53, item 115 https://www.psc.state.md.us/search-results/?q=pc53&x.x=9&x.y=5&search=all&search=rulemaking

[2] Holden Wilen, "Public Service Commission approves BGE rate hikes starting 2022," *Baltimore Business Journal*, Dec. 17, 2020 https://www.bizjournals.com/baltimore/news/2020/12/17/public-service-commission-approves-new-bge-rates.html#:~:text=The%20commission%20set%20BGE's%20return,%2C%22%20according%20to%20the%20PSC

[3] "Exelon Reports Third Quarter 2020 Results," Exelon Corporation, Nov. 3, 2020 https://www.exeloncorp.com/newsroom/exelon-reports-third-quarter-2020-results

the hardships that are being experienced by their customers. SB 506 provides a little bit of relief for customers and limits the profits utilities make as the result of the pandemic.

Thank you and I ask for a favorable report on 506 to help the utility customers of Maryland.