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112 West Street
Annapolis, MD 21401

Letter of Information – House Bill 518: Public Service Commission - Performance-Based Regulation - Study

Potomac Electric Power Company (Pepco) and Delmarva Power & Light Company (Delmarva Power) respectfully submit this letter of information on **House Bill 518 - Public Service Commission - Performance-Based Regulation - Study**. House Bill 518 requires the Maryland Public Service Commission (PSC) to study the feasibility of and develop a framework for transitioning utility regulation in the State to a performance-based utility regulation model. In conducting the study, the PSC must consult with relevant interested parties to develop recommendations for any legislative action necessary to implement a performance-based regulation model. The PSC would then submit an interim report to the General Assembly by December 1, 2024 and a final report by November 1, 2025.

A performance-based rate model is one of many tools available that can have the potential to help utilities meet state policy goals and obtain measurable benefits and value to customers. Pepco and Delmarva Power support exploring alternative rate-making models and recognize that aligning state policy goals and utility rates is an important objective. Performance-based ratemaking can be incorporated into traditional or alternative forms of ratemaking. With performance-based ratemaking, a regulator typically uses metrics to reward utility performance in attaining certain outcomes and to penalize poor performance. The PSC and other interested stakeholders, including Pepco and Delmarva Power, have been actively exploring performance-based ratemaking and alternatives over the last several years at the PSC.

In 2019, the PSC opened a proceeding (Public Conference 51) to explore alternative forms of ratemaking, including Multi-Year Plans (MYP), and later expanded the scope to understand how best to integrate performance-based measures into a MYP. The PC51 Workgroup identified goals and outcomes (e.g., integrating more renewable resources and energy efficiency, peak demand reductions, supporting grid modernization, etc.) noting how economic changes, state policy goals and grid modernization have impacted utility operations.

Subsequently, on June 17, 2020, the PSC submitted the phase II report on performance-based regulation. The report reflected wide agreement and consensus on several of the proposals presented for review to stakeholders. To that end, the Commission found that exploring and potentially implementing performance incentive mechanisms is consistent with the public good, can be beneficial for ratepayers and utilities, and offers opportunities to advance state policy goals and objectives.

Pepco and Delmarva Power will continue to engage in discussions involving alternative ratemaking at the PSC and look forward to sharing our knowledge, experience and any lessons learned throughout the process.

Contact:

Anne Klase
Senior Manager, State Affairs
240-472-6641
Anne.klase@exeloncorp.com

Katie Lanzarotto
Manager, State Affairs
410-935-3790
Kathryn.lanzarotto@exeloncorp.com