



February 5, 2026

SENATE EDUCATION, ENERGY AND THE ENVIRONMENT COMMITTEE
SB 2 – Investor-Owned Electric, Gas, and Gas and Electric Companies – Cost Recovery -
Limitations

Statement in Opposition

Chesapeake Utilities of Maryland, Inc. (“Chesapeake”) provides natural gas local distribution service to approximately 33,000 customers across Maryland's Eastern Shore (including Cecil, Dorchester, Caroline, Wicomico, Worcester and Somerset counties). Chesapeake respectfully **OPPOSES** SB 2 which seeks to prohibit any electric or gas public utility from recovering through rates any costs associated with bonuses paid to any utility company “Supervisor” or any “Employee” who is not covered by a collective bargaining agreement. In addition, SB 2 requires the board of directors of each Maryland gas or electric company to adopt policies that place reasonable cost limitations on expenditures for certain activities including entertainment, performance incentives and other activities outside the scope of the normal course of business operations. For the reasons explained herein, SB 2 is unnecessary, misguided and could harm utility customers by hindering the ability of gas and electric utilities to hire and retain qualified employees.

SB 2 is unnecessary and usurps the authority of Maryland's utility regulator. Under Maryland law, the Maryland Public Service Commission (the “Commission”) approves the rates charged by all public utility companies. In return for monopoly service territories (that also prevent unnecessary duplication of utility services), public utilities (by law) have an obligation to serve all customers who request service.¹

Over 100 years ago, the General Assembly established the Commission as the State agency with specialized knowledge in public utility ratemaking. The rates set by the Commission must be “just and reasonable” and allow the utility to recover its reasonable operating and maintenance expenses (including labor costs) and earn a reasonable return on the company's property used and useful in providing service.² Moreover, the Commission's long-standing regulatory practice allows utilities to recover in rates employee salaries and incentive compensation – but only if the bonus is teathered directly to demonstrated customer benefits. For example, under current Commission practice – an employee bonus tied to the stock performance of the utility would not be allowed in rates. On the other hand, a bonus tied to a customer service, safety or cybersecurity metric would be appropriate for consideration in rates (e.g., incentives tied to improved customer service call wait times, reductions in preventable accidents, or phishing prevention rates). Also, the Commission may already deny recovery of any expenses (including employee compensation) that it finds to be imprudent.

¹ See Public Utilities Article (“PUA”) § 5-303.

² See, PUA §§ 4-101 and 4-201.



Chesapeake is not aware of any evidence or examples of the Commission allowing inappropriate or exorbitant bonuses to be recovered through rates.³ Nevertheless, SB 2 would completely usurp the Commission's authority to determine just and reasonable rates. Under the U.S. Constitution (and State law), a regulator may only deny a utility rate recovery of a particular operating expense (such as employee compensation) if the expense is found to be imprudent and then, only after appropriate due process fact finding (i.e., a Commission rate case). However, SB 2 simply and presumptively declares by fiat that all incentive compensation is imprudent (and unrecoverable). However, the General Assembly delegated its power in this area by creating the Commission to be the expert regulator in the complex area of utility regulation. SB 2 is wholly inconsistent with the reason the Commission was created in the first place and its on-going statutory responsibilities. We note that the Commission (and the intervening parties in rate cases) heavily scrutinize all capital investments and operating expenses incurred by regulated utilities. Indeed, Commission rate case orders consistently grant utilities some of the lowest rates of return when compared to other state commissions.

SB 2 seems to be motivated by a narrative that Maryland public utilities are continuously increasing rates or somehow earning excessive profits. As it relates to Chesapeake, this is a false narrative. Prior to last year, Chesapeake's Maryland division had not filed a rate case for over 16 years. More importantly, over the period of 2005 to 2025 - the actual annual bill for the average Chesapeake customer has tracked lower than inflation. Given Chesapeake's history of providing excellent customer service while operating within its means (without the need for numerous rate increases), we are unclear as to the problem SB 2 is attempting to solve.⁴

SB 2 could hinder utility performance. Similar to any non-regulated companies, public utilities must attract talented employees in order to provide outstanding and safe service to customers. Although gas companies operate as monopolies; gas customers are not "captive" *per se*. Customers are not required to sign up for gas service – any customer is free to disconnect from the gas system and convert their home/business to propane, fuel oil, or all-electric. Safety is Chesapeake's top priority, yet HB1 would deny any bonus tied to safety metrics, harming a helpful incentive that protects both customers and our employees. Customer service is another prime concern for our Company and SB 2 would prohibit all incentive compensation (even incentives tied to customer benefits that work to further motivate employees).

Most public utilities (and non-utilities) compensate employees through a combination of salary and incentive compensation. Qualified employees with experience operating a public utility business are becoming an increasingly scarce commodity. Maryland utilities must compete with out-of-state utilities to retain and recruit top talent. Simply put, prohibiting all incentive compensation sends a negative message to Maryland utility employees and out-of-state workers considering employment

³ Moreover, a separate existing statute already prohibits public utilities from charging excessive rates. See PUA § 4-502.

⁴ Also, we are unclear as to the logic supporting the distinction in SB 2 that would allow bonuses to be recovered in rates for employees covered by a collective bargaining agreement – but prohibit those same bonuses for other non-union employees.



with a Maryland utility. The ability to attract and retain strong executive leadership has an absolute impact on a utility's credit rating and ability to attract capital and borrow at preferable rates. HB1 lays the ground work to negatively impact those credit ratings, driving up costs that would flow through to customers in rates, ultimately harming rate payers.

On behalf of Chesapeake, and our thousands of employees and their families who contribute every day in the communities where they live, work and serve, we respectfully request an unfavorable report on SB 2.

Chesapeake Utilities Corporation
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