



February 20, 2026

The Honorable Brian J. Feldman  
2 West Miller Senate Office Building  
Annapolis, Maryland 21401

Chair Feldman and Members of the Education, Energy, and the Environment Committee,

Maryland American Water appreciates the opportunity to testify strongly in support of SB 556. Maryland American Water has served Maryland homes and businesses with safe, clean, reliable and affordable drinking water since the early 1930s. Over the last decade, Maryland American Water has invested approximately \$42 million to upgrade and replace drinking water infrastructure in Maryland. Today, we serve approximately 24,000 people in Harford and Anne Arundel counties, and our footprint will nearly double later this year with our acquisition of Maryland Water Service, which provides water and wastewater service in parts of Harford, Anne Arundel and Allegany counties.

#### **Benefits of Rate Consolidation Proposed in this Bill**

**Improved affordability for all customers:** Rate consolidation creates benefits for all customers in the long run by spreading infrastructure investment over the total customer base, which in turn results in long-term rate stability. Generally, customers who pay below-average prices are often doing so due to outdated and depreciated infrastructure. This aging infrastructure will require replacement in the near future, and the resulting investment will be recovered through rates. At some point, the utility will need to invest in all of the areas that it serves. Without consolidated tariff pricing, significant necessary investment in small rate zones could significantly impact water affordability for the customers in such a rate zone because there are not enough customers to affordably support the investment.

**A consistent regulatory approach for all public utilities:** Due to the lumpiness of investment, at any given time, using a simple, static cost study will give a distorted picture of the true, long-term differences in costs between different regions of any large public utility. This is another reason why public utility rates tend to be standardized across an entire utility. Consider, for example, the electric distribution system in a large metropolitan area. Investment inside the city may have been completed many years ago, while investment in high growth areas in the outer suburbs was more recently completed, and often at a much higher cost due to inflation and the lower population density. Taking a static cost of service view of this situation would lead one to the erroneous conclusions that it is significantly more costly to serve suburban customers and that those customers should pay a higher rate. Yet over time, the investment in the city must be replaced, and urban renewal in large areas of the city requires more investment. A similar argument can be made for gas distribution companies and water companies. Costs of service differ within a rate zone and

sometimes even within a neighborhood. A neighbor who has a larger lot may require hundreds of feet of more pipe to reach their home than those neighbors on smaller lots, and yet we ignore those cost differentials in setting district rates for many of the same reasons that apply to consolidated tariff pricing. What's good in your neighborhood is good for the whole system.

**Lower administrative and regulatory costs:** Simplifying rate structures also leads to lower administrative costs as utilities can more easily help customers who have questions, lower the cost of billing and collections, and reduce the regulatory cost of separate filings within a single rate proceeding.

**Support for water industry consolidation:** In the past few decades, the water industry has changed dramatically. Many smaller water systems simply cannot attain the economies of scale needed to support the necessary investment, and, as a result, the quality of water service suffers. Consolidated pricing removes a disincentive to invest in these small water companies, as large utilities can recover the cost of needed investment over a larger customer base. This promotes more universal water infrastructure investment in the state and brings cost-effective, higher quality water services to a larger number of citizens.

### **Why the Maryland General Assembly Should Promote Rate Consolidation for Water/Wastewater**

Rate increases are necessary to maintain proper investment in water and wastewater systems and to prudently manage those systems. How this happens is important. Ultimately, the goal of utility rate design for large groups of customers should be to stabilize rates over the long run and smooth out rate increases over time. Spreading investment cost, operating cost, and the cost of meeting water quality requirements over the largest group of customers possible is the most practical way to do that, and rate consolidation achieves this goal.

Short term, there may be instances when subsets of customers might be paying more or less than the cost of providing service to that particular group of customers at a given point in time, assuming that the cost of service for those subsets of customers can even be reliably calculated. However, long term, all customers will be paying a commensurate share of the total cost of operating and maintaining the system, and changes in cost and rate adjustment impacts will be relatively stable compared to a situation where cost increases could be large and unpredictable if small groups of customers were required to cover the full cost of providing service exclusively to them.

### **Rate Consolidation is Recognized as a Best Practice by Utility Regulators Nationwide**

As far back as 2005, the National Association of Regulatory Utility Commissioners (NARUC) recognized consolidation of rates as a "best practice" and recommended that economic regulators consider and adopt as many regulatory mechanisms identified as "best practices" as possible, including consolidation of rates. In addition, a majority of Maryland American Water's regulated affiliates have some form of rate consolidation, including those in the neighboring states of Pennsylvania, Virginia, and West Virginia.

## Limited Income Mechanism to Address Affordability

The concept of affordability for water and wastewater service is based on the idea that everyone should have access to drinking water and wastewater service that is: (1) safe, meaning it complies with the U.S. Safe Drinking Water Act and regulations promulgated by the U.S. Environmental Protection Agency (EPA); (2) reliable, so that it is resilient in the face of floods, droughts, and other climate risks; and (3) affordable. We know that our water and wastewater services are essential, and we acknowledge how important it is to our customers that those services remain affordable.

All stakeholders benefit from a financially stable utility providing safe, reliable, and affordable service to its customers, and we believe it is in the public interest to implement a rate design package that makes water and wastewater service affordable for as many customers as possible. In current state code, Maryland's electric and natural gas utilities have the ability to provide limited income mechanisms to their customers. Our simple request is to extend this ability to water and wastewater. In addition, many of Maryland American Water's affiliates in other states provide some form of limited income mechanism, including in the neighboring states of West Virginia and Pennsylvania. Maryland's water and wastewater utilities should have the ability to make similar low-income mechanisms available to Maryland residents as well.

We urge passage of SB 556 to promote affordability of water and wastewater services to Marylanders and to encourage continued much-needed investment in critical utility infrastructure. We look forward to continued discussions on this matter.

Sincerely,

*Laura E. Runkle*

Laura E. Runkle  
President, Maryland American Water