

Runkle American Water SB 556 Testimony.pdf

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Position: FAV



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 Generally, customers who pay below-average prices are often doing so due to outdated and depreciated infrastructure.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

SB 556 - Utility Rate Consolidation and Income Mec

Uploaded by: Erin Dey

Position: UNF



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February 20, 2025

Education, Energy, and the Environment
2 West Miller
Senate Office Building
Annapolis, Maryland 21401

Dear Chair Feldman,

The Anne Arundel County Department of Public Works (DPW) strongly opposes Senate Bill 556 – Water and Sewage Disposal Companies – Rate Consolidation and Limited-Income Mechanisms. While the intent of ensuring utility affordability is commendable, this bill presents a significant threat to the fiscal stability of the Anne Arundel County's Utility Fund and our ability to maintain critical infrastructure.

This legislation ignores the fundamental reality that Maryland's water service providers do not use a uniform billing model. Jurisdictions use a complex mix of ad valorem taxes, fixed account fees, and volumetric usage rates. Forcing consolidation onto these distinct, localized frameworks is administratively impossible and would lead to inequitable billing for Anne Arundel residents.

Anne Arundel County's water and sewer rates are insufficient to cover existing debt service requirements. We are in a cycle of intensive annual reviews to bridge this gap and SB 556 complicates this effort. The bill's move toward Public Service Commission (PSC) oversight of rate consolidation interferes with the County's ability to set rates based on specific, localized infrastructure needs. We cannot afford a "one-size-fits-all" consolidation when our debt is tied to specific local assets and unique geographical challenges.

The mandate for "Limited-Income Mechanisms" creates an administrative layer for income verification and billing adjustments that the County is not currently equipped to fund. Diverting revenue from our already-strained Utility Operating Fund to manage these programs will further exacerbate our debt service gap.

If the County is restricted in how it adjusts rates due to mandated PSC "protections" or consolidation rules, it risks falling below required debt service coverage ratios. This would lead to credit downgrades, making future infrastructure bonds significantly more expensive for all taxpayers.

For Anne Arundel County, water and sewer service is not a profit-driven enterprise, it is a critical public health utility funded by those who use it. SB 556 introduces regulatory uncertainty at a time when we need maximum flexibility to ensure our system remains solvent.

I respectfully urge the Committee to give SB 556 an unfavorable report.

Sincerely,

A handwritten signature in cursive script that reads "Karen Henry".

Karen Henry
Director

cc: Members of the Senate Education, Energy, and the Environment Committee

SB 556_Information_PSC.pdf

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Position: INFO

KUMAR P. BARVE
CHAIR



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PUBLIC SERVICE COMMISSION

Chair Brian Feldman
Education, Energy, and the Environment Committee
2 West Miller Senate Office Building
Annapolis, MD 21401

RE: SB 556 - Information – Water Companies, Sewage Disposal Companies, and Water and Sewage Disposal Companies - Rate Consolidation and Limited-Income Mechanisms

Dear Chair Feldman and Committee Members:

The Public Service Commission (the “Commission”) appreciates the opportunity to provide this informational testimony for SB 556. This bill would require the Commission to approve any rate consolidation application between two or more water or sewage disposal systems, which would allow those systems to aggregate their revenues and costs for the purpose of establishing rates. The bill would also allow water and sewage companies to propose a limited-income mechanism. The purpose of this testimony is to provide the Committee with information about the Commission’s current processes related to these applications.¹

With respect to rate consolidations, under current Public Utilities Article § 4-307, the Commission may approve a rate consolidation request between two water or sewage disposal systems if those systems have common ownership and if, after holding a public comment hearing and an evidentiary hearing, the Commission finds the rate consolidation request is in the public interest. The Commission’s assessment of the public interest necessarily occurs within the context of the specific rate case at bar and factors in many considerations, including whether the additional burden of subsidized costs on some ratepayers is just and reasonable given the overall revenue requirement, and whether consolidating costs across particular systems would allow customers to benefit from economies of scale. The current statutory scheme gives the Commission the discretion to accept, reject, or modify a rate consolidation request.

With respect to low-income mechanisms, there are many customers of water companies that the Commission regulates that would benefit from having a limited income mechanism to lower their bills. The Commission notes that the current limited income mechanism design and process that was recently approved by the Commission for electric and gas companies may not be implementable by water utilities.² This mechanism relies on the relatively large size of the

¹ In order to ensure adherence to ethical standards of impartiality for cases that may be open before it, the Commission’s ability to comment further may be limited.

² *Limited Income Mechanisms for Utility Customers*, Order No. 91290 on Limited income Mechanism, PSC Administrative Docket PC 59 (2026).

participating electric and gas utilities to alleviate the effects of bill cross-subsidization. Due to the smaller size of the water companies under its jurisdiction, the Commission would likely have to initiate a new proceeding to address a limited income mechanism that could be used by water companies.

Please contact Niki Wiggins, Director of Legislative Affairs, at irene.wiggins3@maryland.gov if you have any questions related to this informational testimony.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kumar", with a stylized flourish at the end.

Kumar P. Barve
Chair, Maryland Public Service Commission

SB0556 & HB1164 - OPC Testimony.pdf

Uploaded by: David Lapp

Position: INFO

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BILL NO.: Senate Bill 0556/House Bill 1164 – Water Companies, Sewage Disposal Companies, and Water and Sewage Disposal Companies - Rate Consolidation and Limited-Income Mechanisms

COMMITTEE: Education, Energy, and the Environment
Environment and Transportation

HEARING DATE: February 24, 2026 (EEE)
March 3, 2026 (ENT)

SPONSOR: Senator Gallion
Delegate Foley

POSITION: Informational

The Office of People’s Counsel (OPC) respectfully offers the following informational comments on Senate Bill 0556/House Bill 1164, which would authorize by statute a proposed “rate consolidation” for two or more private water or sewage disposal systems under common ownership without any meaningful evaluation of whether the proposed consolidation is in the public interest.

Under the Public Utilities Article (PUA), private water and sewage companies¹ are subject to regulation by the Public Service Commission (PSC). As the statutory representative of noncommercial users of services regulated by the PSC,² OPC participates in proceedings before the PSC, including those regarding the regulation of private water and sewage disposal companies. It is in this capacity that OPC offers the following informational comments.

¹ “Water company” is defined as “a public service company that owns a water plant and sells or distributes water for gain” and “sewage disposal company” is defined as a privately owned public service company that owns or maintains facilities for the disposal of sewage.” PUA §§ 1-101(gg), (uu).

² PUA §§ 2-201, 2-204.

In 2018, the PSC proposed legislation that ultimately established PUA § 4-307, which authorizes the PSC to consider proposals to create a single rate for two or more water and sewage disposal systems that are not physically interconnected if (1) the systems share common ownership, and (2) the consolidation of rates is in the public interest. Under the resulting statutory provisions, the PSC *may*—but is not required to—authorize such a rate consolidation after notice to customers and both public and evidentiary hearings.³ SB 0556/HB 1164 proposes to remove the PSC’s discretion to authorize—or not—such a rate consolidation⁴ and would instead *require* the PSC to approve any rate consolidation proposed by a water company, sewage disposal company, or combination water and sewage disposal company without requiring public or evidentiary hearings and without requiring that the rate consolidation is “in the public interest.” SB 0556/HB 1164 would explicitly prohibit the PSC from disapproving a proposed rate consolidation proposal under any circumstances and limits the PSC’s authority to condition its authorization of a rate consolidation to one particular condition: ordering gradual adjustments to the rates charged over a period not to exceed three years.

Use of a single rate or tariff can provide a reasonable and efficient approach to address the specific issues faced by very small water systems. PUA § 4-307 allows necessary capital investment costs to be shared over a larger group of customers, if it is in the public interest. In some circumstances, this approach may ensure that capital improvements can and will be undertaken, to protect public health, and to avoid rate shock, when the cost burden falls on only a few customers. For these reasons, OPC supported the 2018 legislation that gave the PSC authority to approve a proposal for rate consolidation. At the time, OPC specifically requested an amendment making any such proposal subject to an evidentiary proceeding, which allows OPC, PSC staff, and any other interested party to evaluate such a proposal, and the PSC to make a fully informed decision. Rate consolidation, however, may not always be in the best interest of residential water and sewage customers.

SB 0556/HB 1164 proposes to remove from the PSC—the agency charged with regulating private water and sewage disposal companies—any ability to review a proposal for rate consolidation, to consider the facts and public input, or to determine whether rate consolidation is—or is not—in the public interest. Essentially, SB 0556/HB 1164 would—by statute—authorize *any* proposed consolidation of rates for commonly-owned water and sewage disposal systems, regardless of the circumstances and the potential impacts. While it may be within the legislature’s authority to prescribe

³ PUA § 4-307.

⁴ SB 0556/HB 1164 defines “system” to mean “an interconnected system of facilities used by a water company, sewage disposal company, or water and sewage disposal company to provide water or sewage disposal services.”

such an outcome, it requires the legislature to determine that such proposals are inherently—in each and every case—in the public interest.

OPC appreciates the opportunity to provide these informational comments on SB 0556/HB 1164 and is available to answer any questions.