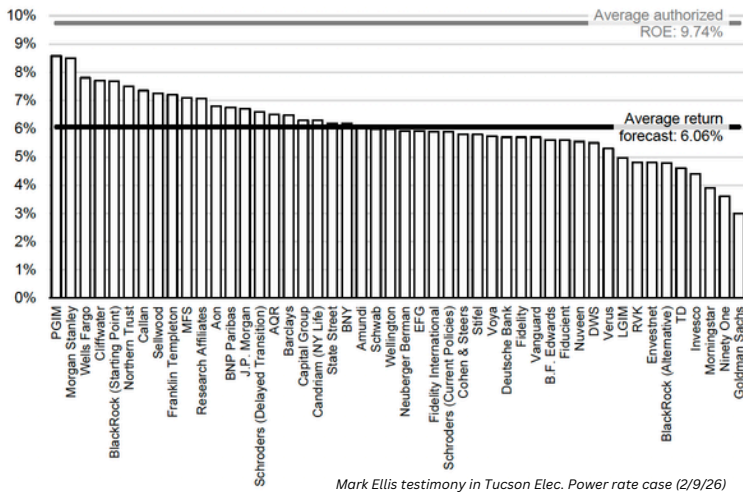


# PREVENTING EXCESSIVE UTILITY PROFITS

Del. Andre Johnson (HB981)

**Problem: As customer bills skyrocket, regulated utility profits exceed free market norms**

**Figure 2. U.S. equity market long-term (10 years or longer) expected returns<sup>36</sup>**  
Nominal, geometric



Return on Equity (ROE) is the authorized profit rate regulators allow utilities to earn on shareholder-invested capital.

The average expected long-term aggregate market return in the free market is 6.06%. This is 38% lower than the average ROE authorized for regulated utilities across the country - even though utilities are one of the least risky industries.

In Maryland ROE's for the state's largest utilities have most recently been set as:

- 9.45% and 9.5% for BGE (Company requested 10.4%)
- 9.5% for WGL (Company requesting 10.85%)
- 9.5% for Pepco (Company requesting 10.5%)

Utility capital spending on new wires, pipes, and poles is what drives profits most significantly. This is because customers pay for capital projects over the full projected lifetime of the equipment, like a mortgage or high interest credit card. The ROE serves as the compounding interest rate. It drives up our bills for decades.

Since acquiring BGE, Pepco and Delmarva Power, Exelon has increased capital spending. Paired with large ROE, this has driven record profits:

- BGE profits were consistently under \$150 million until the utility was bought by Exelon in 2012. Since, profits have rapidly increased to \$578 million in 2025.
- Pepco profits were \$205 million in 2018, the year after Pepco merged with Exelon, and have already nearly doubled to \$390 million in 2024.



**Increases in capital spending paired with high profit rates are key drivers in escalating customer bills and skyrocketing utility profits.**

**Solution: Require the PSC to determine an ROE based on equity market returns and adjust for reduced investor risk**

Setting ROE/profit rates is fundamentally a policy decision, and the legislature should provide guidance to the PSC in this time of crisis. The profit rate should be set at the minimum level necessary to attract investment, given its lower level of risk than the free market. HB981 helps move the state in this direction.

Small changes on utility profit levels will have big impacts on customer bills. For example, if BGE's ROE had been set at 6% in its 2023 multi-year rate increase, it would have resulted in \$280 million in customer savings between 2024 and 2026.