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Annapolis, MD 21401

Opposed – House Bill 1 – Investor-Owned Electric, Gas, and Gas and Electric Companies - Cost Recovery – Limitations

Potomac Electric Power Company (Pepco) and Delmarva Power & Light Company (Delmarva Power) oppose **House Bill 1 - Investor-Owned Electric, Gas, and Gas and Electric Companies - Cost Recovery – Limitations**. House Bill 1 would, among other things, prohibit investor-owned electric and gas utilities from recovering through rates costs related to:

- employee bonuses, as defined, except under specified conditions, or
- “compensation” for supervisors that exceeds 110% of the maximum annual salary payable to a member of the Public Service Commission (PSC)

The bill also requires the board of directors of each investor owned electric, gas, and combination gas and electric company to adopt a companywide policy placing reasonable cost limitations on expenditures for entertainment and events, office and facility renovations, transportation services, staff development activities or events, performance incentives, and other activities outside the scope of the normal course of business operations.

Pepco and Delmarva Power have significant concerns regarding House Bill 1 as it represents a considerable shift from longstanding utility regulatory practices and would create unintended and adverse consequences for customers, employees, long-term system reliability and the state’s business competitiveness. House Bill 1 is inconsistent with the basic principles of the regulatory compact that governs Maryland’s relationship with its utilities. House Bill 1 is not just unnecessary but, if adopted, could adversely harm the ratepayers it aims to protect.

By prohibiting recovery of compensation that is necessary to provide safe, efficient, and reliable service, House Bill 1 violates the fundamental principles of utility regulation and Maryland’s regulatory compact—and threatens to harm ratepayers. The regulatory compact is simple: Utilities are required to “furnish equipment, services, and facilities that are safe, adequate, just, reasonable, economical, and efficient.” And the Maryland Public Service Commission (PSC) is charged with setting “just and reasonable rates” that cover utilities’ costs of carrying out that job. This “just and reasonable” standard includes “necessary and proper expenses.”

To provide reliable, safe service, utilities must provide compensation that attracts employees with the skills and expertise needed to run their systems, which are incredibly complex yet must operate with exceptional reliability. Utilities rely on highly skilled engineers, cybersecurity specialists, line workers, and technical professionals to operate critical infrastructure. These skills employees are in high demand across disciplines, and we compete directly with technology companies, engineering firms, construction leaders, and other major industries for the same talent. In every one of these sectors, competitive base salaries and short-term incentive compensation are the standards. These tools are not just bonuses; they are essential mechanisms to recruit, reward, and retain the top performers who keep the grid safe, reliable, and resilient. House Bill 1 represents a substantial and unprecedented departure from the well-established principles that have guided public utility ratemaking in Maryland for decades.

At the same time, the PSC has consistently authorized the recovery of incentive compensation when such costs have been shown to improve customer outcomes. In multiple prior investor-owned utility rate cases, incentive compensation has been demonstrated to enhance operational safety, service reliability, customer satisfaction, and overall performance. In those instances, the PSC determined such costs to be reasonable and therefore appropriately recoverable in rates. There is no credible basis for removing these expenses from the PSC's authority to evaluate reasonableness and prudence. Consistent with PSC directives, incentive compensation is carefully allocated: incentives tied to operational performance are recoverable from customers; incentives tied to net income, earnings per share, or the Exelon stock price are borne exclusively by shareholders; and restricted stock awards are split evenly between shareholders and customers. The PSC evaluates these costs through detailed market analyses and has disallowed recovery when compensation is unjustified, including by denying recovery of supplemental executive retirement plan (SERP) expenses.

House Bill as drafted, imposes a statutory cap on the level of supervisory compensation recoverable in rates, tying that cap to the salaries of PSC employees. Such a cap would represent an inappropriate encroachment upon the PSC's exclusive authority to determine just and reasonable rates under Maryland law. Establishing an externally imposed and arbitrary benchmark for labor-cost recovery would create structural distortions, leaving Maryland utilities at a competitive disadvantage nationally.

Pepco and Delmarva Power's incentive compensation programs are carefully designed to support and strengthen core operational objectives, including safety, operational excellence, customer satisfaction, workforce sustainability, cost containment, and to provide safe and reliable service. These programs are critical to motivating employees, improving performance, and fostering a culture of accountability. By disallowing the recovery of these costs, House Bill 1 would erode the very mechanisms that drive operational improvements and would ultimately produce adverse effects on service quality, efficiency, and customer outcomes.

Although House Bill 1 appears to be directed at concerns related to executive compensation, the bill's definition of "supervisor" captures a far broader set of employees. This definition includes any individual with authority to hire, discipline, promote, assign, or reward employees, direct the work of others, or respond to employee complaints. Under this expansive definition, a substantial number of Pepco and Delmarva Power's personnel—many of whom are not executives—would fall within the bill's scope.

Pepco, Delmarva Power, and Pepco Holdings employ more than 3,900 dedicated professionals who work tirelessly to deliver safe, reliable, essential electric service to more than one million customers across the state. Although many of our employees are covered by labor agreements, the majority are not represented by labor unions. As drafted, House Bill 1 would create an imbalance by safeguarding wages and bonuses only for employees covered under collective bargaining agreements, while leaving non- union employees without equivalent protections. The bill risks politicizing internal management decisions in a way no other industry experiences.

Based on our research, no other state currently has a law that dictates how private utilities must structure employee bonuses or wages. Additionally, House Bill 1 introduces an unprecedented form of state involvement in how private employers structure compensation for specialized staff. Article III, Section 33 of the Maryland Constitution specifies that the "General Assembly shall pass no special Law, for any case, for which provision has been made, by an existing General Law. House Bill 1 is a "special law" targeting only Maryland's electric and gas investor-owned utilities, and it conflicts with previously enacted general legislation covering the same subject — namely, the general "just and reasonable" standard. House Bill 1 raises concerns because, as just explained, its distinctions "are arbitrary and without any reasonable basis," and because there has been no showing that the "general law" is "inadequate … to serve th[e] interest" in protecting ratepayers from unwarranted costs.

At a time when Maryland is working to rebuild its economy following the loss of 25,000 federal jobs in 2025 and is actively seeking to attract high growth industries, creating a unique regulatory burden for one sector may raise broader concerns for companies evaluating long term investment in the state.

No other state imposes compensation design mandates on private utilities, and even heavily regulated industries like hospitals and health insurers, which are central to life, health, and public safety, face no such requirements. Finally, the fiscal note for the legislation notes that Gas and/or electric utility rates **may** decrease – or future rate increases may be minimized – as a result of the bill's prohibitions on rate recovery. **<u>The extent to which the bill results in a decrease in rates cannot be reliably estimated at this time.</u>**

Pepco and Delmarva Power respectfully request an unfavorable report on House Bill 1. We look forward to working with the committee on advancing long-term solutions that meaningfully address the state's energy challenges.