

Maryland PIRG

HB981: [Investor-Owned Public Service Companies - Base Rate Proceeding - Equity Market Return](#)

Environment and Transportation

February 24th, 2026

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Favorable

Maryland PIRG is a state based, small donor funded public interest advocacy organization with grassroots members across the state. We work to find common ground around common sense solutions that will help ensure a healthier, safer, more secure future.

Maryland PIRG, along with other supporting organizations, recommends a favorable report on HB981, with amendments recommended by the Office of the People's Counsel, to better align utility profits with market norms.

As state granted monopolies, utility companies do not compete in a free market. Because they have no market competition for the distribution of energy to our homes, utilities are regulated by the state, with the legislature and the Maryland Public Service Commission overseeing the companies' operations and approving the costs they charge their ratepayers. This includes setting the authorized rates of return on utility investments.

Utilities raise capital to make infrastructure investments through debt and equity. In order to attract equity investors, utilities offer a [return on equity \(ROE\)](#). Functionally, this equity functions like an interest rate on a mortgage. The investors are the lenders, putting money up front for capital expenses like new substations, wires, and pipes. If this investment is deemed prudent by the PSC, it is paid back by utility customers, with compounding interest over the full lifetime of the investment, from 40- 80 years.

The ROEs for Maryland investor-owned utilities, like utilities nationwide, have been higher than necessary to attract capital for too long, needlessly driving up rates and company profits.

Unlike the interest on a loan, the return necessary to attract investment is not an observable fact. Setting ROE/profit rates is fundamentally a policy decision, and the legislature should provide guidance to the PSC, especially in light of rapidly rising delivery rates. The profit rate should be set at the minimum level necessary to attract investment, given the lower level of risk associated with investments in regulated utilities as compared to the market. HB981 helps move the state in this direction.

Purpose of this legislation:

- Reduce or eliminate excessive profits margins by requiring the PSC to align ROE with broad market data.
- Reduce financial incentives for excessive and wasteful capital spending.
- Lower how much customers are paying in utility profits.
- Preserve PSC discretion while adding consumer protection guardrails.

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Small changes on utility profit levels will have big impacts on customer bills. According to the Office of the People's Council if BGE's ROE had been set at 6% in its 2023 multi-year rate increase (as opposed to the 9.45% and 9.5% the company was granted), it would have resulted in \$280 million in customer savings between 2024 and 2026.

ADDITIONAL INFORMATION

Utilities need to provide some return to attract investors, **but regulators should set ROE as low as possible for utilities to raise the capital to make necessary investments, but not higher than necessary because doing so is just padding investor profits.** This legislation helps achieve this goal by [tying ROE to the actual cost of capital \(COC\).](#)

Generally speaking, investments made in utilities are less risky than those made in companies subject to competition. As such, returns should not need to be as high as market returns to attract investors.

If an ROE is too high it causes two problems

1. It drives up bills and profits unnecessarily; and
2. Because a utilities' rate of return is applied to the overall values of its assets, excessive returns encourage wasteful capital spending to drive up profits.

In Maryland and across the country, utility ROE has been creeping up for some time now and is far outpacing the market.

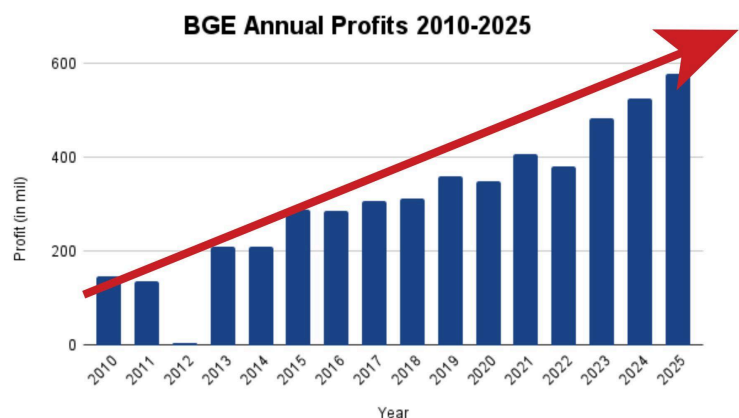
Looking at the average expected long-term aggregate market returns in the market is 6.06%. This is 38% lower than the 9.74% average ROE authorized for regulated utilities across the country - even though utilities are one of the least risky industries.

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

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

Given these considerations, it's no wonder that profits have been escalating for Maryland utilities. Since acquiring BGE, Pepco and Delmarva Power, Exelon has increased capital spending. Paired with a high ROE, this has driven record profits:

- Exelon [reported](#) \$2.7 billion in profit in 2025
- 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.
- While we are still waiting for Pepco's 2025 profits, Pepco Holdings Inc. (which includes Pepco MD and DC, Delmarva Power, Atlantic City Electric) [reported](#) \$799 million in profit in 2025. Pepco is advocating for a 10.5% ROE in its current rate case before the PSC.
- Washington Gas' parent company, AltaGas, [reported](#) \$578 million in profit in 2024. WGL is advocating for a 10.85% ROE in its current rate case before the PSC.

In [its most recent report to shareholders](#) Exelon lays out plans to file for another BGE rate increase request in the first half of 2026 ([slide 4](#)) and projects \$8.3 billion in BGE capital spending (p28) over the next four years, an increase over earlier projections.

ROE directly affects customer rates – higher ROE means higher bills. [RMI](#) analysis estimates that ROE makes up 15-20% of electricity bills nationally. Functionally, customers are paying billions of dollars to unnecessary utility profits because ROE's are higher than what is economically justified.

Many states are examining ROE reforms as possible levers to reduce utility bills. At least eight states have [introduced](#) legislation or are considering legislation to address high ROEs. New York's legislation recently [passed](#) the Senate. Additionally, Pennsylvania Governor Shapiro [said](#) in his budget address, *"we need to have a hard conversation about the amount of profit utilities and their investors can make on the backs of hardworking Pennsylvanians ... At a time when consumers are struggling with high costs, our utilities need to be more sensitive to the reality of their customers. I'm working with the PUC to prevent excessive utility profits this year, but the General Assembly needs to take action to lower costs for consumers going forward, by giving the PUC a set of benchmarks to follow when determining how much utilities can make. We grant these utilities a monopoly – and in exchange, they have a legal responsibility to keep their costs just and reasonable. They shouldn't get one dollar more than what they need to meet their customers' needs."*

Utilities may claim this will chase away investment... but evidence says otherwise.

Utilities may argue that lowering ROE will harm investment. The evidence says otherwise. Utilities have maintained access to capital even during challenging financial conditions. As [RMI explains](#) in their analysis, from 1973-1985, utilities faced periods when they were trading "below book value," a term meaning the market values the company at less than its accounting worth on paper. Yet, the utilities were still able to access capital during this time. [\[see exhibits 10 and 11\]](#) The capital markets did not abandon regulated monopoly utilities then, and there is no reason to believe they would simply because returns are aligned with market fundamentals.

Utilities may also argue that lowering ROE would trigger credit downgrades and increase borrowing costs, ultimately harming customers. Again, the evidence suggests otherwise. As the American Economic Liberties Project [notes](#), "any incremental increase in the cost of debt is overwhelmed by the customer savings on utility profits." Even if borrowing costs were to rise, the reduction in excessive equity returns produces significantly greater net savings to customers. Moreover, the Commission retains authority to adjust the capital structure - including the debt-to-equity ratio - to ensure financial stability and preserve credit quality when necessary.

Finally, it is important to remember that Maryland utilities are legally obligated to provide safe, reliable, and cost-effective service. They are not guaranteed excessive profits; they are entitled only to a reasonable return sufficient to attract capital. Aligning ROE with actual market conditions preserves that balance - protecting customers while ensuring utilities continue to meet their rentability and safety obligations.

We respectfully request a favorable report.

350 Montgomery County * Advance Maryland

* Cedar Lane Unitarian Universalist Environmental Justice Ministry * Center for Progressive Reform * Maryland Legislative Coalition - Climate Justice Wing * Maryland Third Act
* National Consumer Law Center, on behalf of its low-income clients *
Solar United Neighbors Action * Unitarian Universalist Legislative Ministry of Maryland