February 24, 2025

112 West Street
Annapolis, MD 21401

OPPOSE – HB981- Investor-Owned Public Service Companies - Base Rate Proceeding - Equity Market Return

Potomac Electric Power Company (Pepco), and Delmarva Power & Light Company (Delmarva Power) oppose **House Bill 981- Investor-Owned Public Service Companies - Base Rate Proceeding - Equity Market Return.** HB 981 would require the Public Service Commission (PSC), in every base rate case, to determine the "current average expected 10-year U.S. equity market return" using multiple "objective sources," and then authorize rate adjustments based on comparisons between a utility's risk and that benchmark. While the bill may be presented as an objective guardrail, it would, in practice, legislatively prescribe a narrow and singular framework for return on equity (ROE) a decision that should remain grounded in a full evidentiary record and PSC judgment.

HB 981 conflicts with established regulatory principles and industry guidance. Determining a fair ROE is not a one-size-fits-all exercise. Well-established regulatory approaches and recognized industry guidance—including finite capital resources used across the utility regulatory community—support evaluating ROE using multiple financial models and multiple inputs, because each model has limitations and can be distorted by assumptions. HB 981 elevates a single benchmark into the center of every case, effectively constraining the PSC's discretion and narrowing the analytical tools available to evaluate a fair return. **The bill's methodology is undefined and invites costly litigation.**

HB 981 does not define which "objective sources" must be used, how to average or weight them, or how to resolve conflicts among credible forecasts. These gaps will predictably lead to more discovery disputes, more dueling experts, and longer base rate proceedings, increasing the administrative burden and costs for all parties—costs that customers ultimately bear.

A "10-year expected equity market return" is mismatched to utility investment horizons. Utilities invest in long-lived infrastructure—poles, wires, substations, undergrounding, and resiliency projects—with service lives of 20 to 60+ years. Anchoring ROE to an expected 10-year stock market return is not aligned with the actual life of these of these assets which serve our customers and creates a framework that is inconsistent with long-term reliability and resiliency planning.

By imposing a singular and prescriptive framework for determining ROE, this legislation raises significant legal concerns under the Hope and Bluefield precedents, particularly regarding the requirements that utilities are entitled to a reasonable opportunity to recover prudently incurred

Amber Perry | Anne Klase | Allyson Black-Woodson | Poetri Deal | **410 980 5347**

costs and earn a fair and reasonable return sufficient to attract capital on reasonable terms. This legislation's prescriptive benchmark risks undermining the PSC's ability to ensure returns meet those finance ability and fairness standards.

HB 981 would increase uncertainty around ROE determinations and shift rate cases toward disputes over a single benchmark. Increased regulatory uncertainty can increase perceived risk, which can raise the cost of capital (long term debt). Over time, higher financing costs increase the cost of essential infrastructure—working against customer affordability and reliable service.

For these reasons, Pepco and Delmarva Power respectfully request an unfavorable report on HB 981. Maryland's ratemaking process should continue to rely on the full evidentiary record and the PSC's expert judgment to set just and reasonable rates.

Amber Perry | Anne Klase | Allyson Black-Woodson | Poetri Deal | **410 980 5347**