



COMMITTEE: ENVIRONMENT AND TRANSPORTATION

TESTIMONY ON: Equity Market Return for Investor-Owned Public Service Companies

POSITION: Oppose

HEARING DATE: February 24, 2026

Joshua C. Nowak, Vice President of Concentric Energy Advisors, Inc., respectfully submits this statement in opposition to House Bill 981 (“HB 981”) – Investor-Owned Public Service Companies – Base Rate Proceeding – Equity Market Return

SUMMARY OF ANALYSIS

HB 981 would upend the principles established under longstanding Supreme Court precedent and impute an arbitrary, prescribed methodology for determining the return for public service companies based on a metric that has little bearing on the rate of return needed to attract capital necessary for utilities to provide safe and reliable service. Based on my experience across the country, HB 981 would meaningfully distinguish how the rate of return is set for Maryland public service companies from every other state in the U.S. and inhibit utilities from raising the capital needed to make investments for their customers.

Among parties that advocate for setting returns based on expected equity returns for non-utilities, there has been an assertion that utility returns are too high. To accept such a premise, one would have to accept that: 1) every regulator in all 50 states, across thousands of rate cases, has been wrong for decades; and 2) there is a fundamental disconnect in financial markets that defies economic logic where equity investors require a lower return than debt investors. The more plausible explanation is that 10-year expected equity returns for non-utilities are not a directly relevant measure in setting utility returns.

BACKGROUND ON RETURNS FOR PUBLIC SERVICE COMPANIES IN MARYLAND

HB 981 directs State of Maryland Public Service Commission (“Commission”) to set just and reasonable rates for public service companies by determining “the current average expected 10-year United States equity market return” and then “adjust[ing] rates for a public service company based on the risks to the public service company as compared to the equity market return.”

The Commission has long-standing precedent to authorize just and reasonable rates, including utility returns, by reference to the landmark United States Supreme Court decisions *Hope*¹ and *Bluefield*.² Consistent with these principles, the Commission has established that “[a return on equity] should be (i) comparable to returns investors expect to earn on investments of similar risk, (ii) sufficient to ensure confidence in the company’s financial integrity, and (iii) adequate to maintain and support

¹ *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591 (1944) (“*Hope*”)

² *Bluefield Waterworks and Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) (“*Bluefield*”)



the company's credit and to attract capital.”³ In other words, a just a reasonable return meets all three of these standards.

ANALYSIS OF HB 981

In my role, I primarily advise clients in regulated utility industries on a wide range of financial and economic issues with concentrations in valuation and utility rate matters. I have provided advice to clients on setting the rate of return in more than 40 states. I have testified before the Federal Energy Regulatory Commission, the Canada Energy Regulator, and 16 state and provincial regulators. I have testified on the appropriate rate of return in proceedings for public power authorities, cooperatives, and investor-owned utilities.

Based on my experience across numerous jurisdictions, the rate of return as set for Maryland utilities under HB 981 would meaningfully depart from both the *Hope* and *Bluefield* standards and how the rate of return is established in every other state in the country, and would put Maryland utilities at a severe disadvantage in raising capital to fund safe and reliable service for customers. HB 981's directive to set rates subject to a determination of “the current average expected 10-year United States equity market return” represents a fundamental shift from sound ratemaking principles applied by every other state in which I have practiced, as well as before Federal regulators in the U.S. and Canada. Further, the current Commission framework already accounts for a utility's risk relative to the broad market.

A key question in every rate proceeding is: what rate of return will meet the three Constitutional standards and allow a utility to attract capital, maintain the financial integrity of the company, and be comparable to returns required on investments of similar risk? What makes that question difficult is that there is no single, objective measure of what rate of return will always satisfy all three components to that question. It is for that reason that several market-based models, along with an objective review of a public service company's risks compared to its peers, are used to estimate what return investors require for an investment in a utility.

The 10-year expected equity return for the U.S. market has little bearing on the return investors require to invest in a utility. There are several well-established and academically-founded financial models that are used to analyze publicly traded utility companies and develop market-based estimates of investors' required returns for a utility. These models account for a utility's risk profile relative to the overall market and do not rely on 10-year expected equity returns for non-utilities. In my experience in more than 100 rate proceedings, the application of 10-year expected equity returns to determine a utility's rate of return has not been adopted by a single jurisdiction. Given that “expected equity returns” serve a fundamentally different purpose than determining the return a utility investor requires, they have been consistently rejected by commissions across the country. I have seen parties (who have ultimately been disregarded by commissions) introduce evidence of average expected U.S. equity market returns of approximately 6%. This is comparable to the current

³ Case 9754 Proposed Order of Public Utility Law Judge at 10-11, as adopted by the Commission April 22, 2025 (clarification added).



returns that debt investors require, which can be objectively observed in the market. As a fundamental principle of corporate finance, investors require a higher return to invest in higher risk equity than comparatively lower risk utility debt. Consistent with that principle, approximately 99% of authorized utility returns across the U.S. have been 9% or higher. The difference between 6% and 9% is significant, as an equity return of 6% could threaten a utility's ability to provide safe and reliable service and increase costs to customers in the long run. As such, HB 981 would place the Commission at odds with regulators across the country.

If a utility's return is set too low, investors will allocate funds to alternatives offering more attractive returns. As a result, a utility's financial integrity may be harmed, the utility may face exorbitant costs to raise capital, and those costs will be passed on to customers. When commissions have authorized returns that are materially lower than the returns available in other jurisdictions, the results have been dire. For example, in 2021, the Arizona Corporation Commission authorized an 8.7% return for Arizona Public Service Company ("APS"), a significant reduction from its prior 10% return. The credit rating agencies, S&P and Moody's, downgraded APS, and the stock price for its parent company declined by nearly 25% – a signal that investors required higher returns to supply the capital necessary for APS to provide safe and reliable service to its customers and communities. Credit rating downgrades increase costs to customers. A utility with a comparatively lower credit rating issues debt at a higher interest rate. Those higher costs are passed on to customers for decades; ultimately, it is customers that pay the price. Given the consequences of a commission authorizing a comparatively low return of 8.7%, setting a return of based on expected equity market returns of 6% could be catastrophic for Maryland utilities and the customers and communities that they serve.

CONCLUSION

Utilities in Maryland are already viewed by investors as subject to some of the most restrictive regulation in the country. Enacting HB 981 would discourage investment in Maryland utilities, threaten their ability to provide safe and reliable service, and potentially increase costs to customers in the long run. The ratemaking process would be unlike any other state and cause significant uncertainty for the financial integrity of public service companies.

CONTACT

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ABOUT CONCENTRIC ENERGY ADVISORS, INC.

Concentric Energy Advisors is a management consulting and financial advisory firm dedicated to the North American energy sector.

Concentric Energy Advisors was founded in 2002 by a small group of executive-level consultants committed to establishing a mid-sized energy consulting firm with capabilities and a reputation unsurpassed by any firm in North America. Concentric has approximately 75 employees and is headquartered in Marlborough, Massachusetts with an office in Washington, DC. Our wholly owned Canadian subsidiary, Concentric Advisors, ULC is headquartered in Calgary, Alberta, Canada. Our energy industry experts have held positions with utility companies, regulatory agencies, integrated energy companies, regional transmission organizations, retail marketing companies, and utility management consulting firms.

Concentric provides a comprehensive and integrated suite of services to every segment of the energy sector including strategic, financial, regulatory, planning, and ratemaking services. We have evolved with the industry and are actively supporting stakeholders as they navigate the regulatory and operational challenges and opportunities facing the industry. Our experts stay apprised of the latest developments in regulatory policy and routinely testify before U.S. and Canadian regulators on the above topics. We have over 25 experts who have appeared in regulatory proceedings across North America addressing policy and nuanced analytical topics, backed up by a team of consultants who are experienced in all aspects of developing the financial, economic, and technical data filed as part of regulatory proceedings.