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BILL NO.: Senate Bill 0002/House Bill 0001 – Investor-Owned Electric,
Gas, and Gas and Electric Companies - Cost Recovery -
Limitations

COMMITTEE: Education, Energy, and the Environment
Environment and Transportation

HEARING DATE: January 27, 2026 (ENT)

SPONSOR: Senator Hester
Delegate Crosby

POSITION: Favorable with amendments

The Office of People's Counsel ("OPC") respectfully offers the following comments in support of Senate Bill 0002/House Bill 0001 with the amendments described below. SB 0002/HB 0001 seeks to prohibit an investor-owned utility from charging its customers for certain corporate costs that are not directly tied to the performance of core utility functions, and ultimately reduce customer bills.

Specifically, SB 0002/HB 0001 would prohibit investor-owned utilities from passing on to customers the costs associated with (1) "bonus" compensation, defined in the bill as "any form of incentive compensation" and other payments "in addition to base pay that are contingent on the occurrence of one or more events or conditions"¹; and (2) total compensation for any "supervisor" that "exceeds 110% of the maximum annual salary payable to a member of the [Public Service] Commission for the same calendar year." *Notably, the bill does not prohibit an investor-owned utility from providing such compensation to its employees but rather shifts from customers to shareholders the*

¹ This restriction would *not* apply to an employee who "has a written employment contract that was executed on or before December 31, 2025" or an employee "covered by a valid collective bargaining unit."

responsibility to pay for any compensation above and beyond the proposed limits. SB 0002/HB 0001 would also direct the board of directors of each investor-owned utility to “adopt a company-wide policy placing reasonable cost limitations” on other corporate costs that are unrelated to core utility functions and generally benefit shareholders rather than customers.

OPC supports expanding limitations on ratepayer recovery for executive compensation. While customers are reeling from increasingly unaffordable bills, utility executives are rewarded with high pay and bonuses tied to exorbitant utility profits. For example, the compensation for Exelon’s chief executive officer, Calvin Butler Jr., totaled \$14.66 million in 2024.² The combined base salary for BGE’s executive officers in 2024 exceeded \$4 million,³ and BGE’s executive-incentive compensation for 2024 exceeded \$3 million.⁴

Commission precedent requires the recovery of incentive compensation to have some nexus with operational performance—including customer satisfaction, safety and reliability—and to deliver value to rate payers.⁵ To comply with this policy, investor-owned utilities typically include adjustments in their applications for new rates that remove the non-recoverable amount of incentive compensation from the operation and maintenance expenses that the company seeks to recover from customers. In BGE’s most recent application for a multi-year rate plan (MRP), for example, the company proposed a ratemaking adjustment to remove incentive compensation costs totaling \$15.1 million from operations and maintenance expense over its three-year MRP.⁶

SB 0002/HB 0001 would expand this restriction by limiting ratepayer-funded recovery of *total* compensation—including base salaries—and by applying the restrictions on cost recovery to a broader class of “supervisors” as defined in the bill, rather than just executives.⁷ It is appropriate—and consistent with existing policy—to require only shareholders to shoulder those costs.

² Exelon Corporation, 2025 Proxy Statement and Notice of Annual Shareholder Meeting, at 60 (March 19, 2025), *available at* https://investors.exeloncorp.com/node/40291/html#ic02730017c21445ea307ebfaea53a141_1039.

³ Baltimore, Gas and Electric Company, 2024 FERC Form 1 (March 27, 2025), *available at* <https://ecollection.ferc.gov/submissionDetails/236922>.

⁴ Baltimore Gas and Electric Company, 2024 *Annual Information Filing*, ML# 317299, (Case No. 9692, March 31, 2025).

⁵ *See, e.g.,* Md. Pub. Serv. Com’n, Order No. 86060, *Application of Baltimore Gas and Electric Company for Adjustments to Its Electric and Gas Base Rates*, (Case No. 9323, Dec. 13, 2013), 2013 Md. PSC LEXIS 46, at *63–65.

⁶ Baltimore Gas and Electric Company, *Direct Testimony of John C. Frain*, Exhibit JCF 4-E, Operating Income Adjustment 4E and 4G, ML# 301409 (Case No. 9692, Feb. 17, 2023).

⁷ It is not clear whether any utility employees other than managers or executives receive financial or growth-based incentive payments, or how many utility employees—other than executives—earn total compensation above the proposed cap.

OPC recommends a favorable report on SB 0002/HB 0001 with three amendments to better align the bill with existing Commission policy and the public interest.

First, it is not in the public interest for ratepayers to pay for incentive compensation tied to utility financial performance—i.e., achieving shareholder goals—but it is in the public interest for utility employees to be incentivized to provide exemplary service to Maryland customers. To that end, OPC recommends that utilities be allowed to recover the reasonable costs associated with a “bonus” that are tied to the performance of core utility functions. OPC recommends *adding to* (d) as follows:

(D) A PUBLIC SERVICE COMPANY MAY RECOVER THE COSTS ASSOCIATED WITH PAYING AN EMPLOYEE A BONUS THROUGH RATES IF THE PUBLIC SERVICE COMPANY PROVIDES CLEAR AND CONVINCING EVIDENCE THAT:

(1) THE EMPLOYEE HAS A WRITTEN EMPLOYMENT CONTRACT THAT WAS EXECUTED ON OR BEFORE DECEMBER 31, 2025; ~~OR~~

(2) THE EMPLOYEE IS COVERED BY A VALID COLLECTIVE BARGAINING AGREEMENT; ~~OR~~

(3) THE BONUS IS TIED TO THE ACHIEVEMENT OF OPERATIONAL PERFORMANCE FOR CUSTOMER SERVICE, SAFETY, AND RELIABILITY OR OTHERWISE ADVANCES THE ACCOUNTABILITY OF THE EMPLOYEE, OFFICER, OR EXECUTIVE TO CUSTOMERS AND IS NOT RELATED TO FINANCIAL OR GROWTH-BASED METRICS;

Second, OPC recommends expanding the scope of SB 0002/HB 0001 to apply to compensation costs allocated to a Maryland utility from its parent company. Compensation costs incurred by a parent company are allocated across the parent company’s different subsidiary utilities. Because corporate costs incurred at the level of the parent company or another affiliate are generally billed to the utility through a business services company, the bill as drafted excludes those costs from any restriction on ratepayer recovery. OPC recommends the following amendment to ensure that parent-company executive compensation and bonuses are excluded from ratepayer-funded recovery:

(A) (4) “Supervisor” means an individual EMPLOYEE OF A PUBLIC SERVICE COMPANY, ITS PARENT COMPANY OR ANY OTHER AFFILIATE who:

...

(C) (3) Except as provided in subsection (D) of this section, paying a bonus to an employee of a public service company, **INCLUDING ITS PARENT COMPANY OR ANY OTHER AFFILIATE**; or . . .

Third, OPC supports placing additional restrictions on an investor-owned utility's ability to charge its customers for other corporate activities that are unrelated to core utility functions and benefit shareholders over customers, like those listed in subpart (e) of the proposed legislation. Given, however, that any such restrictions would come at the direct expense of shareholders, putting a utility's board of directors in charge of adopting a "company-wide policy placing reasonable cost limitations" on these expenses may be an ineffective means of achieving reasonable improvements. Instead, OPC recommends striking subsection (E) as drafted and replacing it with a straight prohibition against recovery of those costs unless the public service company provides clear and convincing evidence that the costs are necessary and appropriate for the public service company to meet its performance obligations to customers. *Like the limitations on compensation that can be recovered, this change would not prohibit an investor-owned utility from incurring such costs but rather shifts from customers to shareholders the responsibility to pay for them.* OPC would be happy to work with the sponsors to incorporate this change into the proposed legislation.

With the three amendments discussed above, SB 0002/HB 0001 is an important step toward ensuring that cash-strapped customers do not pay for corporate expenses that are not directly tied to the performance of core utility functions.

Recommendation: OPC requests a favorable Committee report on SB 0002/HB 0001 with the amendments described above.