

HB1: Investor-Owned Electric, Gas, and Gas and Electric Companies - Cost Recovery - Limitations

Environment and Transportation

January 27th, 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.

Marylanders are facing rapidly increasing gas and electric delivery rates from investor-owned utilities, particularly the Exelon subsidiaries Baltimore Gas and Electric (BGE), Pepco, and Delmarva Power. And while ratepayers are paying more, profits are skyrocketing and ratepayers aren't seeing commensurate value for the costs.

Rates:

- Since BGE was acquired by Exelon in 2012, gas delivery charges have more than tripled, about 3 times the rate of inflation. BGE has averaged over 8% yearly gas delivery increases.
- Electric delivery rates for BGE and Pepco have risen faster than inflation as well, with BGE electric delivery rates escalating at an average of 4.9% a year and Pepco rates escalating at an average rate of 6.4% a year since 2010.

Profits:

- BGE profits were consistently under \$150 million until the utility was bought by Exelon in 2012, since profits have rapidly increased to \$527 million in 2024, and are on pace to be even higher in 2025.
- Pepco profits were \$205 million in 2018, the year after the company's merger with Exelon, and have already nearly doubled to \$390 million in 2024.

Investor owned utilities have a right to earn a reasonable profit, but when profits and rates skyrocket and consumers are getting less value there is a regulatory problem that needs to be addressed. The best way to prevent rate hikes is rigorous prudence review of spending and disincentivising wasteful spending to ensure only prudent costs are recovered through rates.. The legislature has a critical role to play as a partner to the PSC by giving them clear, statutory authority to reject excessive and imprudent recovery. This bill does just that.

This bill builds on the Ratepayer Freedom Act of 2025, by adding restrictions on what costs investor-owned utilities can recover through rates, giving direction to the PSC for future rate increase proposals.

The bill focuses primarily on ensuring that the amount of executive pay recovered from ratepayer is necessary to fulfill the job and serve customers, with a recommended cap at 110% of the maximum annual salary of a member of the Public Service Commission for the same calendar year.

The bill also adds some restrictions to bonuses for utility staff and directs utilities to place reasonable limitations on recovery for spending for a variety of items including entertainment, events, office renovations, transportation, etc.

As private companies, investor owned utilities have every right to pay their executives what they see fit; however, as state granted monopolies there should be reasonable limits on how much of these salary costs they can pass on to ratepayers. Tying the recommended cap to the salary of Public Service Commissioners enables utilities to hire qualified leaders with issue expertise and managerial experience to serve as executives to meet the needs of ratepayers. Allowing them to pay salaries above this threshold with shareholder profits gives them the flexibility to recruit talent seeking higher pay.

In order to strengthen the bill and give the PSC the tools they need as regulators we have discussed potential amendments with the sponsor including:

- Adding some clarifying language and guidance to the PSC on how to evaluate reasonable recovery for executive pay. By adding requirements for prudence review on executive pay we can ensure ratepayer dollars for salaries are delivering commensurate benefits.
- Making clear that the PSC has the authority to tie executive pay recovery to specific public interest outcomes and performance expectations for executives.
- Adding clear requirements for prudence review also increases utility accountability by ensuring investor-owned utilities are providing sufficient data, documentation, and justification to the PSC when proposing to recover executive pay through rates.

These restrictions and transparency requirements will save ratepayers money and strengthen accountability for investor-owned utilities in Maryland.

We respectfully request a favorable report.