STATE OF MARYLAND

PUBLIC SERVICE COMMISSION

Chair Marc Korman
Environment and Transportation Committee
250 Taylor House Office Building
Annapolis, MD 21401

RE: **HB 1 - Information - Investor-Owned Electric, Gas, and Gas and Electric Companies - Cost Recovery - Limitations**

Dear Chair Korman and Committee Members:

The Public Service Commission (the "Commission") appreciates the opportunity to provide this informational testimony for HB 1. Below, the Commission outlines its current practice for evaluating whether expenses related to certain categories of employee compensation are eligible to be recovered by utilities in rates and probable changes to this practice if HB 1 is passed. The Commission also notes potential impacts to ratepayers

Pursuant to its statutory authority to regulate public service companies to ensure just and reasonable rates and under established Maryland ratemaking principles, the Commission determines whether costs proposed for recovery in rates are prudent, proper, and were necessarily incurred in the provision of utility service. This authority includes reviewing executive compensation, incentive compensation, and other employee-related costs to determine whether such costs should appropriately be borne by ratepayers or shareholders.

In line with these ratemaking principles, the Commission's established precedent is to disallow utility recovery of employee bonuses in rates if the compensation incentivizes the attainment of financial goals that benefit shareholders rather than ratepayers. A utility has the opportunity to recover employee bonuses in rates if the compensation benefits ratepayers by encouraging attainment of customer-related goals, including safety, reliability, and customer service.[1] The Commission must still ensure that all requested expenses are necessary and proper, and will disallow recovery of bonus compensation that does not meet those standards even if its claimed purpose is to benefit ratepayers.[2] These determinations are predicated upon the unique evidentiary record of each case when it comes before the Commission.

[1] *See In the Matter of the Application of Potomac Electric Power Company for Authority to Increase its Rates and Charges for Electric Distribution Service*, Case No. 9286, Order No. 85028, p. 66 (July 20, 2012).

[2] *See e.g. The Potomac Edison Company's Application for Adjustments to its Retail Rates for the Distribution of Electric Energy*, Case No. 9695, Order No. 90847, p. 14 (Oct. 18, 2023)(where the Commission rejected the utility's request to recover COVID-related bonuses to front-line employees because they were discretionary and not necessary for the provision of service); *In the Matter of the Application of Washington Gas Light Co. for Authority*

WILLIAM DONALD SCHAEFER TOWER 6 ST. PAUL STREET BALTIMORE, MARYLAND 21202-6806

410-767-8000 Toll Free: 1-800-492-0474 FAX: 410-333-6495

MDRS: 1-800-735-2258 (TTY/Voice) Website: www.psc.state.md.us

If codified, HB 1 would impact the Commission's current treatment of certain public service company employee compensation in a few ways. For bonuses, HB 1 would require the Commission to disallow all incentive compensation from being included in rates. Because the Commission already does not allow rate recovery of incentive compensation that benefits shareholders, the function of HB 1 would be to preclude the Commission's discretion to allow recovery of bonus expenditures designed to benefit ratepayers if they meet the Commission's requirements for reasonableness and prudency.

For supervisory compensation, HB 1 would require the Commission to limit supervisor pay as defined in the bill to no more than 110% of the maximum salary payable to a Commission employee. Essentially, this would establish a public-sector salary benchmark in place of the Commission's consideration of the private-sector labor market conditions applicable to the utility's labor force when determining compensation expenditures that can reasonably be included in rates.

HB 1 may impact ratepayers in a number of ways. It could reduce utility rates or minimize rate increases in the future because of certain compensation expenses being removed from rate recovery. The bill could also encourage utilities to shift some incentive-based compensation into employee base salaries, which would increase fixed operating expenses and temper any decrease in customer rates. Additionally, to the extent that the bill's provisions present talent attraction and retention issues for the utilities resulting from capped compensation, it could decrease the quality of services being provided to ratepayers. However, because HB 1 only prevents a utility from recouping these expenses from ratepayers, this concern could be addressed by the utility recovering the expenses in excess of what is permitted by statute from shareholders.

Please contact Niki Wiggins, Director of Legislative Affairs, at irene.wiggins3@maryland.gov if you have any questions related to this informational testimony.

Sincerely,

Kumar P. Barve
Chair, Maryland Public Service Commission

---

to Increase Existing Rates and Charges, Case No. 9481, Order No. 88944, p. 82 (Dec. 11, 2018) (where the Commission rejected the utility's request to recover certain incentive compensation in rates because the bonus expenses in the historical test year were related to circumstances unlikely to recur).

WILLIAM DONALD SCHAEFER TOWER 6 ST. PAUL STREET BALTIMORE, MARYLAND 21202-6806

410-767-8000 Toll Free: 1-800-492-0474 FAX: 410-333-6495
MDRS: 1-800-735-2258 (TTY/Voice) Website: www.psc.state.md.us/psc/