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COMMITTEE: ENVIRONMENT AND TRANSPORTATION COMMITTEE

TESTIMONY ON: INVESTOR–OWNED ELECTRIC, GAS, AND GAS AND ELECTRIC COMPANIES – COST RECOVERY – LIMITATIONS

POSITION: OPPOSE

HEARING DATE: JANUARY 27 AT 3:00 PM

WASHINGTON GAS RESPECTFULLY SUBMITS THIS STATEMENT IN **OPPOSITION** TO **HOUSE BILL 1 – INVESTOR–OWNED ELECTRIC, GAS, AND GAS AND ELECTRIC COMPANIES – COST RECOVERY – LIMITATIONS (2025)**

The Commitment to Affordability

Washington Gas Light Company ("Company "or "WGL") acknowledges its shared commitment with the Public Service Commission ("Commission") to pursue affordability and accountability regarding utility expenditures that are recovered from customers. WGL has a sustained record of affordability thanks to prudent management of capital costs and operations and maintenance expense, targeted investment in safety and workforce development, and rigorous energy acquisition protocols.

Capping Compensation and Other Expense in Rates

HB 1 would preempt Commission authority over base rate recovery of bonus and compensation expense associated with utility company "Supervisors," and directs utilities to adopt "reasonable cost limitations" on expenditures for entertainment, renovations, travel, and performance incentives, among other items.

HB 1 proposes to eliminate bonus expense from rates altogether, and to cap recovery of compensation for public service company Supervisors at 110% of the maximum annual salary payable to a member of the Commission. This law change represents a departure from traditional ratemaking, in which the Commission exercises broad discretion over inclusion of bonus and compensation expense in base rates. The standard the Commission uses in judging whether to include expense in rates is that customers should fund expense that is necessary, prudent and directly related to providing service. Further, bonuses and compensation for utility employees must be comparable to similar jobs in the utility sector and geographic area.

HB1 also directs utility boards of directors to adopt "reasonable cost limitations" on expenditures for entertainment, renovations, transportation, staff development, performance incentives or other activities "outside the scope of the normal course of business operations."

<u>Bill Analysis</u>

HB 1 undermines Maryland's proven regulatory model and replaces Commission expertise with rigid statutory mandates. Under the Public Utilities Article, the Commission already has the authority to (i) review compensation for prudence; (ii) disallow unreasonable or excessive costs; (iii) balance affordability, reliability, and performance. In short, HB 1 substitutes legislative judgment for case-by-case, evidence-based review by the Commission.

Unfortunately, HB 1 weakens, rather than strengthens, ratepayer protections by prejudging entire categories of costs as unreasonable and preventing the Commission from considering context, outcomes, or performance. HB 1's mechanical approach limits the Commission's ability to protect customers effectively. For example, as written, HB 1 proscribes the Commission from reviewing any and all Supervisor salaries included in rates that are at or below the level of 110% of the highest paid Commissioner. This approach effectively guarantees rate recovery for the vast majority of utility Supervisor salaries, no matter the actual performance of those Supervisors. Some utilities may reclassify current non-Supervisors as Supervisors to take advantage of automatic salary recovery in rates.

With respect to corporate policies regarding expenditures for entertainment, renovations, travel and other items, HB 1 appears to attempt to extend Maryland law over expenditures that are not recovered in regulated rates and fails to define the concept of reasonableness or how the new law might be implemented or enforced for public service companies. The current overreaching and vague language invites potential legal challenges and avoidable disputes before the Commission.

HB 1 will not lower customer bills because compensation is not a material driver of energy costs. Customer bills are driven primarily by: (i) fuel and supply costs; (ii) infrastructure; investment; transmission congestion (for electric); and (iv) demand growth and weather volatility. Employee bonuses and incentive compensation represent a small fraction of total costs. For a multi-jurisdiction utility like WGL, compensation allocated or assigned to our Maryland jurisdiction has an even smaller impact on rates, *i.e.*, approximately 40% of total compensation. In sum, Maryland ratepayers will not see any benefit from HB 1 in rates.

HB 1 does not address the real and complex causes of Maryland's energy cost increases – which are largely outside the control of management – including PJM capacity constraints (for electric), data center load growth, inflationary construction costs, and compliance mandates such as local paving requirements for gas projects. Instead, HB 1 would penalize WGL for upward pressure on rates that the Company cannot control, and for which WGL has a strong track record of prudent cost management, thanks in part to well-trained, cost-disciplined Supervisors.

HB 1 introduces workforce instability, which raises long-term costs. Compensation restrictions can lead to higher turnover; greater reliance on costly contractors; project delays; increased training and recruitment costs. In sum, a less stable workforce is a more expensive workforce.

HB 1's arbitrary compensation caps also ignore market realities. Tying recoverable compensation to public-sector salaries ignores private-sector labor markets, disregards operational risk and accountability, and impairs recruitment and retention of skilled professionals.

Allowing costs in rates for union employees under CBAs and pre-2025 contracts will also disrupt a stable workforce, creating internal inequities, morale issues, distort workforce planning and may lead to unnecessary litigation related to workplace discrimination.

Further, HB 1's formulaic approach compares bonuses and compensation for dissimilar jobs. Utility Supervisors—which number in the hundreds at WGL—and Commission members do not perform the same roles. The supervisorial role at WGL in wide-ranging, including field supervisors overseeing Operator Qualified construction crews and outside contractors engaged in specialized activities, supervisors overseeing employees engaged in customer communications and emergency dispatch services, safety supervisors who work with the Commission's pipeline safety staff, process and personnel supervisors, leak detection and repair supervisors, construction and security supervisors, accounting and supply chain supervisors, with senior management supervisors overseeing them all.

Commission members unquestionably provide vital oversight of Maryland's utilities to assure just and reasonable rates and must have a working knowledge of most utility operations. But Commissioners are not expected to have the detailed or specialized knowledge of utility Supervisors. Given these material differences in job skills and expectations, there is no rational basis to tie bonus and compensation for utility Supervisors to an appointed State of Maryland appointee.

From the utility perspective, performance incentives are cost-control and QOS tools. Traditionally Maryland utilities have tied performance incentives to enhanced safety outcomes; improved reliability metrics; operational efficiency; and customer service performance. By constraining what portion of Supervisor salaries can be included in rates, HB 1 inadvertently reduces accountability to customers, discourages innovation and increases long-term system costs.

About Washington Gas

Washington Gas Light Company provides safe, reliable natural gas service to more than 1.2 million customers in Maryland, Virginia, and the District of Columbia. Washington Gas has been providing energy to residential, commercial, government, and industrial customers for more than 177 years, and currently serves nearly 520,000 Maryland customers in Montgomery, Prince George's, Charles, St. Mary's, Frederick, and Calvert Counties. The Company employs over 600 employees in Maryland, and hundreds of outside contractors, plumbers, union workers, and other skilled tradespeople. The Company strives to improve the quality of life in our communities by maintaining a locally-based workforce, working with suppliers that represent and reflect the communities we serve, and giving back through its charitable contributions and employee volunteer activities. The Company, together with other natural gas distribution utilities, are responsible for delivering the primary source of heat to Maryland residential energy consumers, serving approximately one half of all Maryland households while providing critical energy services to residential, commercial, and industrial customers at one-third the cost of electricity on a per unit basis.

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