



## Position Statement

### OPPOSE

House Environment & Transportation

2/24/2026

### **House Bill 981 - Investor-Owned Public Service Companies - Base Rate Proceeding - Equity Market Return**

Baltimore Gas and Electric Company (BGE), an investor-owned-owned public service company serving over 2 million Maryland customers with safe and reliable energy, respectfully **opposes House Bill 981 (HB 981) Investor-Owned Public Service Companies - Base Rate Proceeding - Equity Market Return**, which would require the Maryland Public Service Commission (Commission) to determine an “equity market return” for utilities in base rate proceedings using a single, prescribed method and authorize corresponding rate adjustments.

For nearly a century, Maryland utility regulation has been grounded in cost-of-service, rate- of-return regulation, under which the Commission determines just and reasonable rates based on a comprehensive evaluation of a utility’s costs, industry-specific risks, capital structure, and investment obligations. This process appropriately balances customer affordability with a utility’s constitutional obligation to maintain financial integrity and continued access to capital.

HB 981 would undermine this balanced process by mandating the use of a single, legislatively prescribed method for determining an “equity market return,” rather than allowing the Commission to exercise its expert judgment based on the evidentiary record developed in each case. As the National Association of Regulatory Utility Commissioners (NARUC) explains in its *Cost of Capital and Capital Markets Primer for Utility Regulators* (the “NARUC Primer”), determining a fair return on equity is inherently a matter of regulatory judgment, informed by, but not dictated by, financial models. No single metric or formula can substitute for a comprehensive evaluation of all relevant evidence in a particular case.

Prescribing a rigid methodology in statute would eliminate essential Commission judgment and flexibility, distorting a ratemaking process that is intentionally designed to adapt to changing market conditions, State policies, evolving utility risk profiles, and customer impacts.

HB 981 is directly inconsistent with NARUC’s well-established guidance on evaluating a fair return on equity for a utility, guidance which explicitly recognizes the value - and necessity - of using multiple financial models when estimating the cost of equity. The NARUC Primer explains that the cost of equity is not directly observable and must be estimated using forward-looking, market-based models; that each model captures market realities from a different perspective and is subject to model risk and measurement error; and that no single model is best in all circumstances, making it essential for regulators to consider multiple approaches and apply informed judgment.

By contrast, HB 981 would prescribe exclusive reliance on a single model, the Capital Asset Pricing Model (CAPM), and only a specific version of that model. This mechanistic, formulaic approach is precisely what NARUC cautions against. Mandating a single model and formula risks producing distorted outcomes and customer rates, particularly during periods of abnormal or volatile market conditions, interest rates, or risk

BGE, headquartered in Baltimore, is Maryland’s largest gas and electric utility, delivering power to more than 1.3 million electric customers and more than 700,000 natural gas customers in central Maryland. The company’s approximately 3,300 employees are committed to the safe and reliable delivery of gas and electricity, as well as enhanced energy management, conservation, environmental stewardship and community assistance. BGE is a subsidiary of Exelon Corporation (NYSE: EXC), the nation’s largest energy delivery company.

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premiums. Importantly, no other U.S. state or jurisdiction imposes a legislative mandate requiring the exclusive use of a particular ROE methodology. Adoption of HB 981 would therefore make Maryland an outlier and depart from nationally respected regulatory practice.

HB 981 raises Constitutional concerns under the U.S. Supreme Court's decisions in *Federal Power Commission v. Hope Natural Gas Co.* and *Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia*, which make clear that no specific ratemaking methodology is constitutionally required and that the legality of rates depends on the end result - whether the utility has a reasonable opportunity to earn a fair return - rather than adherence to any particular formula. By presuming that a specific return on equity methodology is determinative of a fair return, HB 981 departs from these foundational principles and substitutes a rigid legislative prescription for the constitutionally required exercise of regulatory judgment and actual evidence.

Equity markets are forward-looking, inherently volatile, and influenced by broad macroeconomic forces. Stock market returns reflect expectations across a wide range of industries with fundamentally different risk profiles, capital structures, and competitive dynamics than regulated utilities. As the NARUC Primer emphasizes, utilities are among the most capital-intensive industries, with infrastructure investments designed to last multiple decades. Common stocks are often viewed as perpetuities, while utility assets are capital-intensive, with infrastructure investments designed to operate over multiple decades. Against this backdrop, HB 981's exclusive focus on 10-year market returns is economically inexplicable and fundamentally mismatched to utility investment horizons.

Tying customer rates to a short-term forecast of equity market performance would introduce unnecessary volatility into customers' utility bills without improving service quality or reliability and would improperly shift market risk from investors to customers.

HB 981 could have the unintended effect of increasing utilities' cost of capital and limiting access to investment. Investor-owned utilities must earn a reasonable return on equity comparable to similarly situated utilities in order to attract capital from equity investors. If they cannot, equity investment will decline. Reduced equity investment weakens credit quality and increases borrowing costs. Utilities cannot simply substitute debt for equity, as maintaining a balanced capital structure is essential to financial stability. Constrained access to capital would force utilities to reduce or defer critical infrastructure investments, adversely affecting system reliability and condition. For this reason, cost of capital determinations have historically been left to expert regulatory commissions, which balance the interests of customers, utilities, and investors. Legislative mandates that override this judgment increase regulatory risk, drive up capital costs, and ultimately result in higher rates for customers, undermining the bill's stated objectives.

Simply said, the Commission's existing authority to set a fair return using established financial models and exercising their regulatory judgment already reflects a balanced consideration of market conditions while ensuring continued access to affordable capital for necessary infrastructure investment.

For these reasons, Baltimore Gas and Electric Company respectfully urges an UNFAVORABLE report on HB 981. The bill's mandate to define an "equity market return" and adjust rates accordingly would disrupt sound regulatory practice, introduce financial uncertainty into the ratemaking process, and very likely ultimately harm the very customers it seeks to protect. We encourage the Committee to work collaboratively with utilities, consumer advocates, and the Commission to pursue targeted, sustainable solutions that strengthen affordability and reliability for Maryland ratepayers.