MARYLAND
Public Service Commission

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Maryland PSC Denies Much of Pepco's Rate Increase Request

Rate changes approved for only one year of multi-year plan

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BALTIMORE, MD – In a unanimous decision, the Maryland Public Service Commission has authorized a rate increase of $44.6 million for Potomac Electric Power Company (Pepco), based on forecasted data. In May 2023, the utility applied for a multi-year rate plan (MYP) requesting $117.2 million for the first year and reaching a total of $213.6 million over the course of the MYP period ending December 31, 2027, inclusive of a 9-month extension period requested by the utility.

Pepco provides electric distribution service to Maryland customers in Montgomery and Prince George's counties. The approved rates will result in an estimated total electric bill increase of $5.72 per month (or just over 3.5%) for the average residential customer.

In its decision, the Commission reminded all parties in this case that any multi-year rate plan proposal would be subject to the "lessons-learned" proceedings for the pilot MYP, which is Baltimore Gas and Electric (BGE) since it was the first utility to file under the MYP pilot approved by the Commission in 2020. Because the Commission has not made any final multi-year plan ratemaking policy determinations, it notes that it would be inappropriate to make such determinations in this proceeding. Today's decision approves just and reasonable rates for Pepco, while the Commission awaits an evaluation of BGE's pilot MYP through the lessons-learned proceedings, as well as the lessons learned from subsequent BGE and Pepco MYPs.

Other key issues addressed in this case include:

- The Livingston Road battery storage project--During public hearings, residents opposed to Pepco's plan to build the Livingston Road battery energy storage project in their community, asked that the Commission not allow Pepco to recover costs for the project in the rate case (which Pepco has since withdrawn). During the rate case, Pepco accepted the Commission's Technical Staff's recommendation to remove $3.1 million in project costs, as

Staff pointed out deficiencies in contractor progress monitoring and project management.

- Street lighting--Due to billing discrepancies noted in a formal complaint brought against Pepco in Case No. 9706, Pepco and Staff identified billing errors in 10 municipalities. Pepco included more than $2 million in its rate case to automate and improve the asset management and billing processes for Maryland streetlights. In order to be consistent with the Commission's order on investigation of Pepco's streetlighting practices and procedures (in Case No. 9706), the Commission accepted Staff's recommendation that directs Pepco to remove the costs associated with the billing errors from the rate case, and ensure that the streetlight rate classes (SL and SSL) only receive the system average increase in revenue pending resolution of the billing issues in the streetlight case.

- Climate Solutions Program -- Pepco proposed 12 programs as part of its CSP, including programs to provide make-ready incentives to increase electric vehicle adoption, incentives to support increased building electrification, and programs to support customers' electrification investment decisions. The Maryland Office of People's Counsel (OPC) filed a motion to strike the proposed programs, claiming that their consideration would require the Commission to make policy determinations about electrification that would have impacts for <u>all</u> electric distribution companies, and would be more appropriately considered in other active Commission dockets. OPC noted that the Commission previously granted a similar motion filed by OPC in <u>BGE's</u> most recent rate case. The Commission emphasized its preference that utility proposals to address climate change be coordinated with efforts and plans by the State, as well as local governments. Climate change solutions require concerted actions as envisioned by the Maryland General Assembly and Governor Wes Moore. In March 2024, the Commission granted OPC's motion to strike the proposed programs, with the exception of the Smart Inverter Pilot Program, which Pepco says will directly contribute to the modernization of Maryland's electric grid. The Commission did note concerns about the high administrative costs of the program, but would address cost recovery for it at a later date.

- The Commission accepted OPC's recommendation to remove the budgeted cost to rebuild the Benning 69kV Substation. The Commission also accepted Staff's recommendation to hold Pepco to the 2023 budget level and directed the Company to identify the most at-risk assets that need replacing.

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- The Commission found that a return on equity (ROE) of 9.5% for Pepco's distribution service was warranted. The Commission finds that these terms, along with the decisions stated elsewhere in the order, encompass just and reasonable rates that will adequately compensate the utility to provide safe and reliable service.

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