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Maryland PSC Sets New BGE Distribution Rates

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BALTIMORE, MD – In a unanimous decision, the Maryland Public Service Commission has authorized a rate increase over three years of just under $408 million for Baltimore Gas and Electric Company's multi-year rate plan (MYP), inclusive of both gas and electric service. For the first year of the multi-year plan, the Commission authorized the use of federal tax credits to partially offset the rate increases to customers in year one.

In February of this year, the company applied for an increase of $602 million, which it said was necessary to cover continued investments in the electric and gas distribution systems in order to sustain safe and reliable service, and to increase system resilience in the face of Maryland's increasing electrification goals.

Specifically, the application sought rate increases of more than $313 million for electric and just over $289 million for gas to be implemented over a three-year period starting January 1, 2024. BGE serves 1.3 million residential electric customers and 700,000 natural gas customers in Baltimore City and parts of 10 adjacent Maryland counties.

The approved rates will result in average year-one bill increases of $4.08 a month for residential electric customers and $10.43 per month for residential gas customers in 2024. Those average increases decline substantially in subsequent years, to 34 cents a month for electric and $2.80 a month for gas in year three.

The Commission found that a return on equity (ROE) of 9.5% for BGE's electric distribution service and 9.45% for BGE's gas distribution service was supported by the evidence presented in the case. Those ROEs are comparable to returns that investors expect to earn on investments of similar risk, are sufficient to assure confidence in BGE's financial integrity, and are adequate to maintain and support BGE's credit and attract any needed capital.

Of particular note, the Commission approved BGE's proposed budget of $120 million associated with the new conduit agreement that the company executed with Baltimore City, but determined that it would be subject to a future prudence review at the reconciliation stage of this rate case and all future rate cases until the costs are fully recovered.

The Commission found that the current evidentiary record was unclear as to whether the new conduit agreement will benefit ratepayers or impose significant future burdens. The Commission's Technical Staff and the Maryland Office of People's Counsel (OPC) raised numerous issues questioning the prudency of the agreement, especially considering that the company entered into a contract that expires before the end of the decade but expects cost recovery over the next 50 years.

The Commission expressed concern that customers may be required to pay back a significant debt that will be put into rate base, with interest, profits, and taxes over the 50-year depreciation period of the improvements with unknowable changes in contract costs during this 50-year time period. Although the new agreement may provide a rate reduction for customers in the short term (due to lower annual conduit fees the company pays to the City), long-term customer costs may increase because BGE will make improvements to the conduit under the new agreement and seek to collect those additional costs from ratepayers.

The impact on ratepayers is made more uncertain by the relatively short term of the new conduit agreement—which expires on December 31, 2029. Additionally, the benefits are unclear regarding BGE's authority under the new agreement to prioritize certain projects in order to benefit electric customers.

The Commission will require an ongoing benefit cost analysis of the conduit agreement for ratepayers that must be presented in every rate case until the costs of the contract are fully recovered, including any new contract BGE enters into with Baltimore City, benchmarked against the previous expensing contract. If it is determined this contracting decision was not cost-beneficial in conjunction with future conduit contract changes, the Commission may at that time disallow remaining unrecovered contract costs.

Other key issues addressed in this case include:

- The Commission denied the request of OPC to reject BGE's three-year forecasted revenue requirement and terminate the multi-year rate plan construct altogether. OPC had argued that the results so far of the MYP demonstrate that it fails to protect consumers, and does not serve the public interest beyond benefiting utility shareholders. The Commission found that switching to a traditional rate case after the start of the proceeding would deny BGE its due process rights, and also that it would not be appropriate to terminate MYPs in the confines of a single utility's rate case. The Commission will take up that issue in the MYP lessons-learned proceeding, expected to begin in 2024.

- The Commission rejected BGE's proposed performance incentive mechanisms (PIMs) to provide rewards or penalties to the company based on achieving (or missing) certain goals, finding that the design and costs of the programs outweighed benefits to customers.
- In August 2023, the Commission granted OPC's motion to remove BGE's $272 million electrification plan proposal from the current multi-year plan, noting that it would be premature to consider, in isolation, a broad new policy proposal within the confines of a rate case. Moreover, the Commission ruled, stakeholders should have the opportunity in a separate docket to propose their own electrification or greenhouse gas reduction plans beyond the proposals contained in BGE's rate case.

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The Maryland Public Service Commission regulates electric and gas utilities and suppliers, telephone companies (land lines), certain water and sewer companies, passenger motor vehicle carriers for hire (sedans, limousines, buses, Uber, Lyft), taxicab companies (in Baltimore City and County, Charles County, Cumberland and Hagerstown) and bay pilot rates.