

ORDER NO. 92209

Maryland-American Water Company's
Application for Authority to Revise its
Rates, Charges, and Tariff Provisions for
Water Service

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BEFORE THE
PUBLIC SERVICE COMMISSION
OF MARYLAND

CASE NO. 9808

ORDER ON JOINT STIPULATION AND SETTLEMENT AGREEMENT

Before: Kumar P. Barve, Chairman
Frederick H. Hoover, Jr., Commissioner
Bonnie A. Suchman, Commissioner
Odogwu Obi Linton, Commissioner
Ryan C. McLean, Commissioner

Issue Date: February 26, 2026

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Appearances

David Beugelmans, Esquire, on behalf of Maryland-American Water Company.

Brock Miller and Diamond Hawkins, Assistant People's Counsel, on behalf of the Maryland Office of People's Counsel.

Lloyd Spivak, Staff Counsel, and Kenneth Albert and Jennifer Purvis, Assistant Staff Counsel, on behalf of the Technical Staff of the Maryland Public Service Commission.

I. PROCEDURAL HISTORY

On August 1, 2025, Maryland-American Water Company (“MAWC” or the “Company”) filed an application with the Maryland Public Service Commission (“Commission”) for authority to revise its rates, charges, and tariff provisions for water service in its Bel Air and Severn districts (“Application”).¹ The Application and its accompanying testimony, schedules, and exhibits requested an initial incremental revenue requirement of \$2,869,596 for the Bel Air District² (a 47.5 percent increase) and \$129,722 for the Severn District³ (a 37 percent increase).

MAWC based its request on a 12-month test year ending April 30, 2025, and requested the new rates take effect on August 31, 2025. The Company included with the Application the direct testimonies of: Deba F. Ather, Senior Manager of Regulatory Services for American Water Works Service Company, Inc. (“AWWSC”);⁴ Jared Deason, Director of Rates and Regulatory for AWWSC;⁵ Anna Kazasi, Director of Engineering for MAWC and Virginia-American Water Company (“Virginia American Water”);⁶ Amanda R. Nori, Assistant Vice President of Concentric Energy Advisors, Inc.;⁷ Laura E. Runkle, President of MAWC and Virginia American Water;⁸ Simon Scarlett, Director of Operations

¹ Maillog No. 320920, Application Maryland-American Water Company for Authority to Revise its Rates, Charges, and Tariff Provisions for Water Service (“Application”). The Application, along with its supporting work papers and exhibits, was entered into the record as MAWC Exhibit (“Ex.”) 2. On August 13, 2025, the Company filed an errata version of Ex. 6 to the Application (Maillog No. 321407), which was admitted into the record as MAWC Ex. 12.

² The Bel Air District serves approximately 5,073 customer connections in the Town of Bel Air and the surrounding areas of Harford County, Maryland.

³ The Severn District serves approximately 103 customer connections in Anne Arundel County, Maryland.

⁴ MAWC Ex. 3, Direct Testimony of Deba F. Ather.

⁵ MAWC Ex. 4, Direct Testimony of Jared Deason (“Deason Direct”).

⁶ MAWC Ex. 5, Direct Testimony of Anna Kazasi.

⁷ MAWC Ex. 6, Direct Testimony of Amanda Nori (“Nori Direct”).

⁸ MAWC Ex. 7, Direct Testimony of Laura E. Runkle (“Runkle Direct”).

for Virginia American Water;⁹ Eric J. Tangarone, Principal Regulatory Analyst for AWWSC;¹⁰ and Heidi L. Wagner, Senior Manager, Rates and Regulatory for AWWSC;¹¹ Michael McKeever, Senior Director of Rates and Regulatory Affairs for MAWC, New Jersey-American Water Company, and Virginia American Water.¹²

On August 7, 2025, the Commission issued a Notice of Pre-Hearing Conference docketing the matter and suspending the Company’s proposed revised tariffs for no more than 180 days from September 1, 2025.¹³ The Commission held a pre-hearing conference on September 8, 2025, and adopted a procedural schedule.

On November 14, 2025, MAWC filed the supplemental direct testimonies of Anna Kazasi¹⁴ and Eric Tangarone.¹⁵ Then, on November 24, 2025, the Office of People’s Counsel (“OPC”) filed the direct testimonies of Eric Borden,¹⁶ Roger D. Colton,¹⁷ David J. Garrett,¹⁸ and Jerome D. Mierzwa.¹⁹ That same day, the Commission’s Technical Staff

⁹ MAWC Ex. 8, Direct Testimony of Simon Scarlett. MAWC later filed an errata version of the Direct Testimony of Simon Scarlett on September 9, 2025 (Maillog No. 322215), which was entered into the record as MAWC Ex. 13.

¹⁰ MAWC Ex. 9, Direct Testimony of Eric J. Tangarone.

¹¹ MAWC Ex. 10, Direct Testimony of Heidi L. Wagner.

¹² MAWC Ex. 11, Direct Testimony of Michael B. McKeever (“McKeever Direct”).

¹³ Maillog No. 321111.

¹⁴ MAWC Ex. 14, Supplemental Direct Testimony of Anna Kazasi.

¹⁵ MAWC Ex. 15, Supplemental Direct Testimony of Eric J. Tangarone (“Tangarone Suppl. Direct”).

¹⁶ OPC Ex. 1, Direct Testimony of Eric Borden (“Borden Direct”).

¹⁷ OPC Ex. 2, Direct Testimony of Roger D. Colton.

¹⁸ OPC Ex. 3, Direct Testimony of David J. Garrett (“Garrett Direct”).

¹⁹ OPC Ex. 4, Direct Testimony of Jerome D. Mierzwa (“Mierzwa Direct”).

(“Staff”) filed the direct testimonies of David L. Valcarengi,²⁰ Tanyeka R. Alexander,²¹ Alden Manka,²² Lucy Shea,²³ Evan Thomas,²⁴ Kamren Walton,²⁵ and Barbara Weber.²⁶

Public comment hearings were held on December 8, 2025, in Bel Air, Maryland and December 15, 2025, in Severn, Maryland.²⁷

On December 19, 2025, MAWC filed the rebuttal testimonies of Deba Ather,²⁸ Jared Deason,²⁹ Anna Kazasi,³⁰ Michael McKeever,³¹ Amanda Nori,³² Simon Scarlett,³³ Eric Tangarone,³⁴ and Heidi Wagner.³⁵ That same day, OPC filed the Rebuttal Testimony of Eric Borden.³⁶ Staff did not file rebuttal testimony.

On January 8, 2026, MAWC filed a Notice of Settlement, indicating that the Company, OPC and Staff (collectively the “Parties”) reached a settlement in principle that resolved all contested issues, and requested a suspension of the procedural schedule.³⁷ The

²⁰ Staff Ex. 1, Direct Testimony of David L. Valcarengi (“Valcarengi Direct”).

²¹ Staff Ex. 2, Public Direct Testimony of Tanyeka Alexander. The Confidential version of this testimony was entered into the record as Staff Ex. 2C (together with the Public version “Alexander Direct”).

²² Staff Ex. 3, Direct Testimony and Exhibits of Alden Manka.

²³ Staff Ex. 4, Direct Testimony and Exhibits of Lucy Shea (“Shea Direct”).

²⁴ Staff Ex. 5, Direct Testimony of Evan Thomas (Thomas Direct”).

²⁵ Staff Ex. 6, Direct Testimony and Exhibits of Kamren Walton. Staff filed an errata version of this testimony on December 22, 2025, which was entered into the record as Staff Ex. 6A (“Walton Direct”).

²⁶ Staff Ex. 7, Direct Testimony of Barbara Weber.

²⁷ See Maillog No. 324141, Notice of Public Comment Hearings at 1 (Nov. 7, 2025).

²⁸ MAWC Ex. 17, Rebuttal Testimony of Deba F. Ather.

²⁹ MAWC Ex. 18, Rebuttal Testimony of Jared Deason.

³⁰ MAWC Ex. 19, Rebuttal Testimony of Anna Kazasi. The Confidential versions of Exhibits AK-1 and AK-2 to Ms. Kazasi’s Rebuttal Testimony were entered into the record as MAWC Ex. 19C.

³¹ MAWC Ex. 20, Rebuttal Testimony of Michael B. McKeever.

³² MAWC Ex. 21, Rebuttal Testimony of Amanda Nori.

³³ MAWC Ex. 22, Rebuttal Testimony of Simon Scarlett.

³⁴ MAWC Ex. 23, Rebuttal Testimony of Eric J. Tangarone.

³⁵ MAWC Ex. 24, Rebuttal Testimony of Heidi L. Wagner.

³⁶ OPC Ex. 5, Rebuttal Testimony of Eric Borden.

³⁷ Maillog No. 325992, MAWC Notice of Settlement and Request to Suspend Procedural Schedule (Jan. 9, 2026).

next day, OPC filed the surrebuttal testimony of Eric Borden,³⁸ Roger Colton,³⁹ David Garrett,⁴⁰ and Jerome Mierzwa.⁴¹

The Parties subsequently filed a Joint Stipulation and Settlement Agreement (the “Settlement”) on January 22, 2026.⁴² On February 2, 2026, the Parties filed respective testimony in support of the Settlement. MAWC filed the Settlement Testimony of Michael McKeever.⁴³ OPC filed the Settlement Testimony of Eric Borden.⁴⁴ Staff filed the Joint Settlement Testimony of Tanyeka Alexander and Lucy Shea,⁴⁵ and the Settlement Testimony of Kamren Walton.⁴⁶

On February 5, 2026, the Commission held a settlement hearing to enter the Parties’ pre-filed testimony and the Settlement into the record. MAWC, OPC, and Staff jointly admitted the Settlement. The next day, the Commission issued two bench data requests to the Company and one data request to OPC. MAWC and OPC filed their responses on February 9 and 10, 2026, respectively.⁴⁷

³⁸ OPC Ex. 6, Surrebuttal Testimony of Eric Borden.

³⁹ OPC Ex. 7, Surrebuttal Testimony of Roger D. Colton.

⁴⁰ OPC Ex. 8, Surrebuttal Testimony of David J. Garrett.

⁴¹ OPC Ex. 9, Surrebuttal Testimony of Jerome D. Mierzwa.

⁴² Maillog No. 326479 (“Settlement”). The Settlement was entered into the record as Joint Ex. 1 and is attached to this Order.

⁴³ MAWC Ex. 25, Settlement Testimony of Michael B. McKeever (“McKeever Settlement”).

⁴⁴ OPC Ex. 10, Settlement Testimony of Eric Borden (“Borden Settlement”).

⁴⁵ Staff Ex. 8, Joint Testimony in Support of Settlement of Tanyeka R. Alexander and Luch Shea (“Alexander and Shea Settlement”).

⁴⁶ Staff Ex. 9, Testimony in Support of Settlement of Kamren Walton (“Walton Settlement”).

⁴⁷ Maillog No. 326995, MAWC Responses to Bench Data Requests 1-1 and 1-2 (Feb. 9, 2026) (“MAWC BDR Responses”); Maillog No. 327013, OPC Response to Bench Data Request 2-1 (Feb. 10, 2026) (“OPC BDR Response”).

II. PRE-SETTLEMENT PARTY POSITIONS

A. MAWC Application

MAWC last sought a rate adjustment in 2019.⁴⁸ Since then, MAWC invested approximately \$7.7 million in essential infrastructure, while keeping operation and maintenance (“O&M”) expenses below the rate of inflation.⁴⁹ The Company therefore explained that the need for the rate increase was primarily driven by two factors: (1) ongoing investment obligations to replace aging infrastructure (*e.g.*, water mains and treatment equipment) and to comply with new regulatory requirements (*e.g.*, Polyfluoroalkyl Substances (“PFAS”) regulations⁵⁰); and (2) increases in O&M expenses.⁵¹

To soften the impact on low-usage and low-income households in the Bel Air District, MAWC proposed a transition to a two-tier volumetric usage rate structure for residential customers. The Company also proposed to flow back Excess Accumulated Deferred Income Taxes (“EADIT”) previously created when the federal Tax Cuts and Jobs Act (“TCJA”) lowered corporate income tax rates. The proposed \$2.62 monthly EADIT credit rider would offset the bill impact of increased rates for Bel Air customers over a 12-month period.⁵² For the newly acquired Severn District,⁵³ the Company proposed to retain the existing quarterly flat charge until MAWC can install volumetric meters and a full year

⁴⁸ See *In re Application of Maryland-American Water Company for Authority to Adjust its Existing Schedule of Tariffs and Rates*, Case No. 9487, Order No. 89022 (Feb. 2, 2019) (affirming the Proposed Order of the Public Utility Law Judge (“PULJ”), as amended).

⁴⁹ Application at 1-2.

⁵⁰ Following the U.S. Environmental Protection Agency’s finalization of regulations for six specific PFAS substances in April 2024, capital investments are needed by MAWC to install and implement necessary treatment technology to reduce PFAS concentrations.

⁵¹ Runkle Direct at 4-5.

⁵² Application at 3.

⁵³ MAWC acquired the Severn District in November 2024.

of data is made available.⁵⁴ For Bel Air and Severn customers, the Company proposed a 1.5 percent late payment charge on past-due balances.⁵⁵

MAWC proposed several cost recovery mechanisms to better manage costs and accelerate investments between rate cases. The Company proposed a new Advanced Treatment and Compliance Rider (“ATCR”) as a mechanism to recover capital investment needed to comply with new regulatory mandates, noting specifically the estimated cost to comply with new PFAS regulations.⁵⁶ The Company also proposed a Distribution System Infrastructure Charge (“DSIC”) to permit the proactive and systematic replacement of aging distribution infrastructure, such as water mains and hydrants.⁵⁷ MAWC also sought regulatory accounting deferral treatment for certain production costs—specifically, chemicals, fuel and power, waste disposal, and purchased water.⁵⁸

MAWC proposed a capital structure consisting of 47.68 percent debt and 52.32 percent equity,⁵⁹ and it requested a return on equity (“ROE”) of 10.64 percent and an overall weighted average cost of capital, or rate of return (“ROR”), of 7.59 percent.⁶⁰ Based on its depreciation study, the Company proposed an annual depreciation rate of 2.5 percent, up from the current approved composite rate of 2.2 percent.⁶¹

B. OPC

OPC largely opposed MAWC’s requests for non-traditional ratemaking mechanisms, specific rate designs, and proposed financial returns. OPC argued the

⁵⁴ Application at 4 and n.2.

⁵⁵ *Id.* at 4.

⁵⁶ McKeever Direct at 13-15.

⁵⁷ *Id.* at 19-20.

⁵⁸ *Id.* at 26-27.

⁵⁹ Deason Direct at 4.

⁶⁰ *Id.* at 5.

⁶¹ Nori Direct at 16.

Company's proposed cost recovery mechanisms attempt to bypass traditional historical test year ratemaking. Specifically, the APCR would cover classic, ongoing costs instead of extraordinary costs; the DSIC mechanism would decouple capital spending from regulatory scrutiny; and deferred accounting treatment of production costs (*i.e.*, fuel, power, and chemicals) is unnecessary as those costs are recurrent and controllable.⁶²

Regarding the Company's proposed rate design, OPC objected to the two-tiered volumetric rate design for Bel Air because it would unfairly benefit high-income/low-use customers while penalizing low-income/high-use families.⁶³ Instead, OPC argued the Company should maintain a single, volumetric usage charge for Bel Air and proportionately reduce the fixed monthly charge to reflect the Commission's authorized revenue increase.⁶⁴ For Severn, OPC agreed with converting Severn to monthly billing that reflects the overall percentage revenue increase authorized by the Commission.⁶⁵

OPC challenged the Company's requested ROE and depreciation expenses. OPC countered with a proposed ROE of 9.1 percent, resulting in an overall ROR of 6.78 percent. OPC argued the Company's proposed depreciation rates were excessive and recommended reducing the Company's proposed annual depreciation accrual by \$121,021.

C. Staff

Staff recommended a lower revenue increase than requested by MAWC. Staff argued that the Company's initial proposal was excessive and relied on costs that did not adhere to the "known and measurable" regulatory standard. Alternatively, Staff

⁶² Borden Direct at 3-4.

⁶³ Mierzwa Direct at 14-15.

⁶⁴ *Id.* at 15.

⁶⁵ *Id.* at 16.

recommended an increase of approximately \$1.8 million for the Bel Air District with a two-year phase-in of rates to reduce potential rate shock to customers.⁶⁶ Staff opposed the Company's proposed two-tiered volumetric rate and, instead, favored a standard single rate to protect low-income households.⁶⁷ Staff also recommended reducing the customer charge increase to align with historical inflation.⁶⁸ For the Severn District, Staff recommended an increase of \$13,380. Staff did not oppose MAWC's proposed continuation of the existing flat monthly charge in this case due to insufficient meter data.⁶⁹

Regarding the Company's proposed cost recovery mechanisms, Staff opposed the ATCR rider as premature, noting that MAWC has already secured external funding for PFAS treatment costs, and those monies should be exhausted first.⁷⁰ Staff also recommended rejection of the DSIC because it lacked safeguards implemented for similar cost recovery mechanisms approved in other jurisdictions.⁷¹

Staff recommended certain operational disallowances, including incentive compensation tied to financial performance⁷² and lobbying and corporate costs.⁷³ Staff also recommended removal of post-test year plant, inflation factor adjustments, and MAWC's proposed deferred accounting treatment of routine production costs.⁷⁴

Staff proffered an ROE of 9.60 percent,⁷⁵ which, using Staff's recommended capital structure for the Company, resulted in an overall ROR of 7.03 percent.⁷⁶ Staff generally

⁶⁶ Alexander Direct at 3 and Walton Direct at 17.

⁶⁷ Walton Direct at 11-13.

⁶⁸ *Id.* at 14-15.

⁶⁹ *Id.* at 18.

⁷⁰ *Id.* at 22-23.

⁷¹ *Id.* at 25-26.

⁷² Alexander Direct at 27-28.

⁷³ *Id.* at 9.

⁷⁴ *Id.* at 33, and 37-38.

⁷⁵ Thomas Direct at 12.

⁷⁶ *Id.* at 14.

found MAWC’s operations to be satisfactory and capital projects prudent but disagreed on how depreciation should be calculated. Staff rejected the Company’s proposal to use consolidated depreciation rates for both districts.⁷⁷ Instead, Staff recommended that the Company’s depreciation rates should be based solely on Bel Air’s investment history and apply only to the Bel Air District. Existing depreciation rates for Severn should remain in place until better data becomes available.⁷⁸

III. SUMMARY OF PUBLIC COMMENTS

Six members of the public, including members of the Bel Air Board of Town Commissioners, provided oral comments at the December 8, 2025 public comment hearing in Bel Air, Maryland. All speakers opposed the proposed rate increase for the Bel Air District.⁷⁹ They spoke against the proposed two-tiered rate structure, arguing that the base tier of 2,000 gallons is too low to cover base household needs and penalizes larger families rather than encouraging discretionary water conservation.⁸⁰ Commenters raised concerns regarding the proposed DSIC and ATCR, arguing these cost-recovery mechanisms bypass historical test year ratemaking, shift significant risk to ratepayers, and weaken the Commission’s oversight and undermine regulatory transparency.⁸¹ They pointed out the high profitability of MAWC’s parent company, American Water Works Company (“AWWC”) and noted that Bel Air’s water rates are significantly higher than those of neighboring Harford County.⁸²

⁷⁷ Valcarengi Direct at 4-5.

⁷⁸ *Id.* at 5-7.

⁷⁹ Bel Air Public Comment Hearing Transcript (“Bel Air Hr’g Tr.”) at 7:6-12:19; 13:7-17:1; 17:5-25:16; 25:19-28:6; 28:16-34:14; 34:21-35:13.

⁸⁰ *See id.* at 14:16-16:13.

⁸¹ *Id.* at 26:7-27:23.

⁸² *Id.* at 20:2-21:7.

At the Severn public comment hearing on December 15, 2025, one speaker sought clarification on the impact of the Company’s rate increase on affected Severn customers.⁸³ After speaking with company representatives, he agreed that an average bill impact of \$11 per month for Severn customers was “within reason.”⁸⁴

In addition to the oral testimony, four written comments were submitted to the Commission, all opposed to the rate increase. The Bel Air Board of Town Commissioners urged the Commission to reject the proposed rates as unjust and unreasonable, noting that MAWC’s 2025 historical test year expenses (\$7 million) were triple the previous six-year average.⁸⁵ It argued the proposed two-tiered rate structure penalizes normal household water use rather than encouraging conservation.⁸⁶

One commenter who attended the Bel Air hearing challenged MAWC’s debt ratio and affordability calculations.⁸⁷ Another commenter who attended the Severn hearing pointed out a discrepancy regarding bill impact to customers as presented at the hearing versus the Company’s Application.⁸⁸ He argued that a 37 percent water bill increase would harm residents on tight budgets while AWWC projects strong earnings growth.⁸⁹ Another Severn resident expressed concern over AWWC’s “water service monopoly” across Maryland, further enabling exorbitant rate hikes.⁹⁰

⁸³ Severn Public Comment Hearing Transcript (“Severn Hr’g Tr.”) at 3:5-5:10.

⁸⁴ *Id.* at 6:6-12.

⁸⁵ Bel Air Board of Town Commissioners Comments at 1.

⁸⁶ *Id.* at 1-2.

⁸⁷ Sedney Comments at 2.

⁸⁸ Weber Comments at 1.

⁸⁹ *Id.*

⁹⁰ Matthews Comments at 2.

IV. SETTLEMENT

A. Joint Stipulation and Settlement Agreement

The Parties reached a full settlement and compromise on all contested issues concerning the Company's Application, including the authorized incremental revenue increases for both rate districts, rate design, cost recovery mechanisms, and depreciation.

1. Revenue Requirement and Recovery

The Parties agreed to an increase in annual base rate revenues of \$1,950,000 for the Bel Air District, phased in over two years, with carrying costs, to mitigate rate shock from a large increase since the Company's last rate case. The increase will be implemented in two equal parts, with an increase of \$975,000 effective immediately upon Commission approval for Year 1, followed by an additional increase of \$975,000 in Year 2, effective January 1, 2027.⁹¹ The Company will be authorized to establish a regulatory asset for the deferred revenue MAWC would have collected during Year 1 had the Company been authorized to collect the full \$1.95 million increase in Year 1 ("Phase-In Regulatory Asset"). The Phase-In Regulatory Asset will accrue carrying costs at an annual rate of 4.23 percent, which reflects the Company's authorized cost of long-term debt.⁹² The estimated dollar amount of this regulatory asset with carrying costs is \$880,972.⁹³ MAWC will recover the accumulated balance of the Phase-In Regulatory Asset via a 12-month surcharge starting January 1, 2028, unless the Company elects to include it in a future base

⁹¹ Settlement Agreement at 2-3.

⁹² *Id.* at 3.

⁹³ MAWC BDR Responses at 1.

rate case.⁹⁴ Lastly, the existing surcharge for property taxes on the Bel Air water impoundment will terminate once the new rates take effect.⁹⁵

For the Severn District, the Parties agreed to an increase in annual base rate revenues of \$29,866. The new rates will become effective as soon as reasonably practicable following the Commission's order approving the Settlement.⁹⁶

2. Rate Design and Rate Mechanisms

MAWC agreed to apportion its revenue increase among its customers in accordance with the rates, terms, and charges as provided in the tariff schedules attached to the Settlement. The Parties agreed to a 13 percent increase in customer charges. They also rejected the Company's proposed two-tier volumetric rates in favor of retaining the single, volumetric rate structure.⁹⁷ The Settlement expressly excludes the Company's proposed rate mechanisms: ATCR for PFAS and other environmental compliance; DSIC for distribution system upgrades; and production cost deferral for chemicals, fuel and power, purchase water, and waste disposal.⁹⁸ Additionally, the Company will switch to monthly billing instead of quarterly billing. As shown in the tariff schedules attached to the Settlement, the Parties agreed to the proposed charge of 1.5 percent for past-due balances.⁹⁹

3. Depreciation

The Settlement provides that depreciation rates for the Bel Air District will be developed solely based on Bel Air assets. No changes will be made to the existing

⁹⁴ Settlement Agreement at 3-4.

⁹⁵ *Id.* at 4.

⁹⁶ *Id.*

⁹⁷ *Id.* at 5.

⁹⁸ *Id.*

⁹⁹ *See* Exhibit 1 to Settlement Agreement at 2.

depreciation rates for the Severn District.¹⁰⁰ The Parties agreed to lengthen the service lives for specific accounts, including reservoirs and standpipes, services, hydrants, collecting and impounding, and non-media water treatment equipment. Regarding depreciation methodology, the Settlement provides that the discount rate for future removal cost will be based on the Credit-Adjusted Risk-Free Rate of 5.88 percent, and net salvage will be calculated on a vintage level.¹⁰¹

B. Testimony in Support of Settlement

1. MAWC

MAWC witness Michael McKeever testified that the Settlement is in the public interest because it balances stakeholder interests, allows the Parties and the Commission to conserve resources and avoid the need for a full evidentiary proceeding, and provides just and reasonable rates to ensure the Company can continue to provide safe and reliable service.¹⁰² He noted that while MAWC typically seeks full cost recovery in its new rates, it agreed to the two-year phase-in approach to reduce the immediate impact to customers, given the large increase requested and the seven years since the Company's last base rate case.¹⁰³ He further explained that the Company agreed to withdraw its requests for the ATRC and DSIC mechanisms as part of a "good faith compromise."¹⁰⁴

2. OPC

Eric Borden provided settlement testimony for OPC, describing the Settlement as a "reasonable compromise" that will produce just and reasonable rates. Mr. Borden

¹⁰⁰ Settlement Agreement at 5.

¹⁰¹ *Id.* at 6.

¹⁰² McKeever Settlement at 3-4.

¹⁰³ *Id.* at 4.

¹⁰⁴ *Id.* at 5-6.

specifically highlighted that the Settlement rejects MAWC’s proposed two-tiered volumetric rate design for residential customers and excludes the disputed cost recovery mechanisms, consistent with OPC’s litigation position.¹⁰⁵ While OPC did not specify a recommended revenue requirement in its direct testimony, Mr. Borden confirmed the negotiated revenue increases for Bel Air and Severn are reasonable.¹⁰⁶

3. Staff

Staff witnesses Tanyeka Alexander and Lucy Shea jointly testified that the Settlement produces reasonable rates. They explained the Settlement represents a “black box” agreement, where individual cost components are not specified, and the Settlement only specifies the new rates.¹⁰⁷ They noted the agreed-upon revenue requirement is much closer to Staff’s original position compared to the Company’s original request, and they emphasized the Settlement reduces rate case expenses and litigation risk while ensuring significant reductions in revenue responsibility for both rate districts.¹⁰⁸

Staff witness Walton addressed the Settlement rate design, supporting the 13 percent increase in customer charge for all of MAWC’s service areas—which aligns with Staff’s original position and is based on the compound annual growth rate of base customer charges from 1999 to 2025.¹⁰⁹

Regarding customer bill impact, Mr. Walton explained the phase-in will mitigate rate shock; for example, a typical Bel Air residential customer with a 5/8” meter using 3,000 gallons (per month) will see an approximate \$7/month increase in the first year rather

¹⁰⁵ Borden Settlement at 4.

¹⁰⁶ *Id.* at 3-4.

¹⁰⁷ Alexander and Shea Settlement at 2.

¹⁰⁸ *Id.* at 3-4.

¹⁰⁹ Walton Settlement at 4.

than an immediate \$14/month increase.¹¹⁰ Severn customers will see a fixed charge increase of approximately 8.5 percent, from \$51.74 to \$56.15 per month.¹¹¹ Mr. Walton also supported the rejection of the two-tiered volumetric rate structure to avoid unintended bill impacts to customers with larger households or higher essential water needs.¹¹²

C. Settlement Hearing

During the February 5, 2026 settlement hearing, the Commission observed that the Settlement does not address the Company's recent tariff governing the distribution of PFAS settlement proceeds, as referenced in its Application. When asked whether the instant Settlement affected their respective positions on the pending tariff,¹¹³ the Parties responded no.

In response to a bench data request from the hearing, the Company subsequently clarified bill impacts to Bel Air customers—namely, that Bel Air residential customers with a 5/8” meter using 4,000 gallons would experience a \$7.38 per month bill increase on March 1, 2026, a \$9.91 per month bill increase on January 1, 2027, and a \$2.62 per month bill increase on March 1, 2027, due to the rate phase-in and EADIT credit. The total impact to residential customers is a \$19.89 per month bill increase between March 1, 2026 to March 1, 2027, phased in over three changes in rates.¹¹⁴

¹¹⁰ *Id.* at 8-9.

¹¹¹ *Id.* at 9.

¹¹² *Id.* at 8.

¹¹³ The Commission subsequently decided the matter by letter order on February 6, 2026, finding that Staff's proposal to retain the PFAS litigation settlement funds in a designated reserve or deferral account is appropriate.

¹¹⁴ MAWC BDR Responses at 2.

V. ANALYSIS AND FINDINGS

Before approving a settlement in a rate case proceeding, the Commission must find that the resulting rates are just and reasonable for the utility and its customers, and the settlement is in the public interest.¹¹⁵ Section 4-101 of the Public Utilities Article (“PUA”), Annotated Code of Maryland, defines “just and reasonable rate” as a rate that:

- (1) does not violate any provision of this [statute];
- (2) fully considers and is consistent with the public good; and
- (3) except for rates of a common carrier, will result in an operating income to the public service company that yields, after reasonable deduction for depreciation and other necessary and proper expenses and reserves, a reasonable return on the fair value of the public service company’s property used and useful in providing service to the public.

MAWC also filed its Application pursuant to PUA § 4-307, which provides that after notice to customers and holding a public hearing and an evidentiary hearing, the Commission may authorize a rate consolidation of two or more water or sewage disposal systems if:

- (1) the water or sewage disposal systems have common ownership; and
- (2) the rate consolidation is in the public interest.¹¹⁶

In determining whether to accept a settlement, the Commission considers various factors, including “the avoidance of time and litigation costs associated with rate case proceedings, whether the interests of the settling parties are normally adverse to one

¹¹⁵ *In re Delmarva Power and Light Co.*, 102 Md. P.S.C. 236, 239-40 (2011) (“The Commission has in the past considered and approved settlements proposed by adverse parties representing divergent interests in a proceeding. We acknowledge that delicate compromises are often required in order for parties to achieve an uncontested settlement. * * * [T]he mere fact of a settlement does not end our inquiry—we must review any settlement carefully to ensure that the outcome, and the resulting rates, are indeed just and reasonable.”).

¹¹⁶ PUA § 4-307(b).

another, and the likelihood that the settlement produced results that would be the approximate outcome if the case had been fully litigated.”¹¹⁷

The Parties agreed to increases in annual base revenues of \$1,950,000 for the Bel Air District and \$29,866 for the Severn District, which represent reductions of 32 percent and 77 percent, respectively, from the Company’s original Application. Staff and OPC reviewed the Application and supporting documentation, conducted their own analyses, and in their respective testimony discussed several contested issues, including but not limited to the Company’s revenue request, proposed rate design, accounting adjustments, cost of capital, and proposed tariff revisions. As a result of arm’s length negotiations, the Parties reached agreement on all contested issues, which they memorialized in the Settlement and now present to us as reasonable and in the public interest. The Parties’ concessions in the Settlement, as compared to their litigated positions, are set forth in the chart below:

¹¹⁷ *In re Application of Baltimore Gas and Electric Co. for Adjustments to its Electric and Gas Base Rates*, Case No. 9610, Order No. 90052, *slip op.* at 15 (Feb. 1, 2022), citing *Re Potomac Electric Power Co.*, 93 Md. P.S.C. 134, 137 (2002).

Parties' Positions				
Party	Proposed Revenue Increase	Percentage Increase in Rates	Proposed ROE	Proposed Overall Rate of Return
<u>Bel Air</u>				
MAWC	\$2,856,711 ¹¹⁸	47.3%	10.64% ¹¹⁹	7.59% ¹²⁰
Staff	\$1,798,414 ¹²¹	29.8%	9.6% ¹²²	7.03% ¹²³
OPC	\$2,123,549 ¹²⁴	35.2%	9.1% ¹²⁵	6.78% ¹²⁶
Proposed Settlement	\$1,950,000	32.3%	n/a ¹²⁷	n/a
<u>Severn</u>				
MAWC	\$88,538 ¹²⁸	25.2%	10.64%	7.59%
Staff	\$13,380 ¹²⁹	3.8%	9.6%	7.03%
OPC	\$54,286 ¹³⁰	15.5%	9.1%	6.78%
Proposed Settlement	\$29,866	8.5%	n/a	n/a

Other key compromises include the Parties' agreement to a two-year phase-in approach for the Bel Air District, as originally proposed by Staff; a lower, 13 percent increase in customer charge; retention of a single, volumetric rate structure instead of

¹¹⁸ Tangarone Suppl. Direct at 2.

¹¹⁹ Deason Direct at 5-6.

¹²⁰ *Id.* at 5.

¹²¹ Alexander Direct at 3.

¹²² Thomas Direct at 3.

¹²³ *Id.* at 3.

¹²⁴ OPC BDR Response at 1.

¹²⁵ Garrett Direct at 5.

¹²⁶ *Id.* at 5.

¹²⁷ Value not included in a "black box settlement." Alexander and Shea Settlement at 2.

¹²⁸ Tangarone Suppl. Direct at 2-3.

¹²⁹ Shea Direct at 3.

¹³⁰ OPC BDR Response at 1.

MAWC's proposed two-tier volumetric usage rate; exclusion of several rate mechanisms originally proposed by MAWC; and unconsolidated depreciation rates.

The Settlement recognizes that seven years have passed since MAWC's last rate application. It was therefore inevitable that the Company would seek a rate adjustment to maintain the financial health required for providing safe and adequate service. The agreed-upon revenue requirement increase, while less than the Company's revised request, is nonetheless substantial for Bel Air customers. However, the Commission finds that the structure of the Settlement protects ratepayers from immediate rate shock. For example, the phase-in plan will effectively reduce the bill impact to Bel Air customers in the first year by over 50 percent—from \$17.27 per month to \$7.38 a month per month.¹³¹ While not specifically referenced in the Settlement, but included in the accompanying tariff pages, the Company agrees to refund to Bel-Air customers, via credit rider, a total of \$222,573 from EADIT collected under the Tax Cuts and Jobs Act of 2017.¹³² The credit will appear as a separate line item on customer bills over a 12-month period following the effective date of the new rates.¹³³ An average residential customer with a 5/8 inch meter using approximately 4,000 gallons of water per month will receive a monthly credit of \$2.62 over this period.¹³⁴

Notably, phasing the revised rates over two years results in a regulatory asset in the total amount of \$1,950,000, plus carrying costs to be calculated monthly based on the balance of the Phase-In Regulatory Asset, at an annual rate of 4.23 percent, which reflects the Company's authorized cost of long-term debt. With approval of the Settlement, the

¹³¹ Customers will see an additional bill increase of \$9.91 per month starting January 1, 2027.

¹³² MAWC BDR Response 1-2.

¹³³ *Id.*

¹³⁴ *Id.* The EADIT credit will not impact Severn customers.

Company is authorized to recover the regulatory asset through a surcharge mechanism over a 12-month period, beginning January 1, 2028. Alternatively, the Company may request to recover the regulatory asset in its next base rate case, which may occur at any time after the effective date of Year 1 rates.

The Settlement also adopts Staff's and OPC's material recommendations regarding the exclusion of the Company's APCR, DSIC, and production cost deferral rate mechanisms and rejection of two-tiered volumetric rates. This will further simplify rate implementation, improve bill transparency and predictability, while avoiding unintended or uneven bill impacts among customers. Removal of these elements also addresses chief concerns raised in the oral and written public comments received in this proceeding, including the Bel Air commenters' concern that the two-tiered structure, as proposed, would not effectively incent water conservation because the first-tier usage threshold was too low.

Exhibit 1 to the Settlement contains revised tariff pages. The Company agreed to apportion its revenue increase among its customers and consolidate rates, terms, and charges as provided in the revised tariff schedules. The tariff schedules reflect the concessions discussed herein, including a fixed 13 percent increase in all customer charges. The Commission finds the agreed-upon revenue allocation and rate design are just and reasonable to all customer classes and balances traditional ratemaking principles with the need for gradualism to ensure affordability.

For the foregoing reasons, the Commission finds the Settlement reasonable. The compromise reached herein on revenue requirements, rate design, and the withdrawal of complex riders results in just and reasonable rates. Furthermore, the Settlement serves the

public interest by conserving resources—for the Commission and the Parties—and avoiding protracted litigation and possible appeals. Accordingly, the Commission approves the Joint Stipulation and Settlement Agreement without change.

IT IS, THEREFORE, this 26th day of February, in the year Two Thousand Twenty-Six, by the Public Service Commission of Maryland, **ORDERED**:

(1) that the Application filed by Maryland-American Water Company on August 1, 2025, is hereby denied;

(2) that the Joint Stipulation and Settlement Agreement, attached hereto and incorporated herein by reference, entered into by the settling parties on January 22, 2026, is hereby approved without modification;

(3) that Maryland-American Water Company is authorized to revise its rates for the Bel Air District as to produce additional annual base rate revenues of \$1,950,000, to be phased in over two years as set forth in the Settlement Agreement;

(4) that Maryland-American Water Company is authorized to revise its rates for the Severn District as to produce additional annual base rate revenues of \$29,866; and

(5) that the clean tariff pages filed by Maryland-American Water Company, attached to the Settlement and consistent with this Order, are hereby accepted by the Commission, with the same effective date as this Order.

/s/ Kumar P. Barve

/s/ Frederick H. Hoover, Jr.

/s/ Bonnie A. Suchman

/s/ Odogwu Obi Linton

/s/ Ryan C. McLean

Commissioners