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For Immediate Release

Maryland PSC Approves BGE Rate Plan for 2021-2023

(BALTIMORE, MD-December 16, 2020) – The Maryland Public Service Commission has approved, in part, the three-year rate proposal by Baltimore Gas and Electric Company (BGE) for electric distribution and gas delivery services. Among other changes, the Commission's decision reduces the larger rate increase BGE sought for the third year of the multi-year plan.

BGE proposed to hold customer bills steady for the first two years of its plan (2021-2022), in response to COVID-19 pandemic, and then increase rates in the third year (2023). The Commission determined that BGE's proposal included rate increases for the first two years, but those increases were offset by federal tax credits that are due to be returned to customers. BGE proposed to accelerate the return of those tax credits to offset any increase in customer bills for the next two years. In other words, as proposed, while BGE's revenue requirement would increase on January 1, 2021, customers would not realize any increase to their utility bills until 2023 when the credits are largely exhausted.

The Commission agreed with BGE and the other parties to this proceeding that using tax refunds and other adjustments to prevent an immediate rise in customer bills in 2021 was prudent. "In order to mitigate the potentially severe economic impacts of approving a rate increase during an unprecedented pandemic, the Commission approved BGE's plan to accelerate the use of certain tax credits to avoid any increase to customer bills for the first year of BGE's multi-year rate plan," said Jason M. Stanek, Chairman of the Public Service Commission. "However, the Commission elected not to exhaust those credits to prevent an increase in 2022, because doing so would have led to a larger rate increase in 2023 and beyond."

In addition, to provide greater clarity to customers, BGE must include a line item on customer bills and label it "BGE Federal Tax Credit". This will provide transparency regarding the return of customer funds to offset BGE's rate increase in 2021.

With today's decision, while BGE's rate increase will take effect beginning on January 1, 2021, the Company's tax credits will negate any increase in customer bills in 2021. Beginning in 2022, customers may see an increase in their bills, subject to potential offsetting adjustments that will be reviewed by the Commission in the future.

BGE's authorized revenue increase for 2021 will be $59.3 million for electric and $53.2 million for gas (but there will be no increase in customer bills due to the offsets); for 2022, the Commission authorized an additional revenue increase of $39.2 million for electric and $8.9 million for gas; for 2023, $41.4 million for electric and $11.8 million for gas.

The Commission set BGE's return on equity (ROE) at 9.5% for electric and 9.65% for gas. The Commission noted that although the approved ROEs reflect a nominal downward adjustment from BGE's most recently approved ROEs, the new ROEs account for changing financial markets and declining interest rates. The Commission further found that the ROEs approved in its order are not inconsistent with the nationwide average of awarded ROEs for electric and gas utilities in recent years, which have shown a downward trend with a pronounced reduction in 2020. According to the Commission, the approved ROEs appropriately account for reduced regulatory lag and risk arising from BGE's decision to request multi-year rates, which will remain fixed over a three-year rate-effective period, based on a forecasted revenue requirement.

Background: Earlier this year, the Commission approved a pilot process to allow a utility to request a rate plan using a multi-year period. In May 2020, BGE was the first Maryland utility to request such a plan under this framework; Pepco filed a multi-year plan in October 2020. The Commission's use of this alternative form of ratemaking, which is used in several other states, is expected to limit the number and frequency of utility rate cases, and allow customers to know with certainty the timing and scale of changes in rates. Until now, the Commission has relied largely on a traditional form of ratemaking based on a past, or historic, 12-month period as the basis for electric and gas utilities to recover the cost of providing service to customers. As such, many utilities file rate cases as frequently as every year in an effort to recover their costs more quickly.

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