

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 981 (Delegate A. Johnson, *et al.*)
Environment and Transportation

Investor-Owned Public Service Companies - Base Rate Proceeding - Equity
Market Return

This bill requires the Public Service Commission (PSC) to determine the current average expected 10-year U.S. equity market return by using multiple objective sources in a base rate proceeding to set just and reasonable rates for a public service company that is an investor-owned electric, gas, or combination gas and electric company. PSC may adjust the rates for the public service company based on the risks to the public service company as compared to the determined equity market return.

Fiscal Summary

State Effect: PSC can implement the bill's changes using existing budgeted resources. The potential effect on gas and electric utility rates is discussed in the Additional Comments below. No effect on revenues.

Local Effect: The potential effect on gas and electric utility rates is discussed in the Additional Comments below. No effect on revenues.

Small Business Effect: Potential minimal, as discussed in the Additional Comments below.

Analysis

Current Law: PSC must supervise and regulate public service companies subject to its jurisdiction to (1) ensure their operation in the interest of the public and (2) promote adequate, economical, and efficient delivery of utility services in the State without unjust discrimination.

Public Service Company Rates

A public service company must charge just and reasonable rates for the regulated services that it renders. Generally, PSC has the power to set a just and reasonable rate of a public service company, as a maximum rate, minimum rate, or both. A “just and reasonable rate” means a rate that:

- does not violate any provision of the Public Utilities Article;
- fully considers and is consistent with the public good; and
- 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.

U.S. Supreme Court rulings (*Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm’n of W. Va.*, 262 U.S. 679 (1923) and *Fed. Power Comm’n v. Hope Nat. Gas Co.*, 320 U.S. 591 (1944)) have clarified the requirement that a rate yield a “reasonable return”. As an example in a recent rate case, PSC adopted the federal standards in Order No. 88432 when authorizing an increase in electric rates for Potomac Electric Power Company. The order established three primary requirements that a utility’s return must meet to be considered fair. The requirements are that:

- a fair return must be comparable to returns investors expect on investments of similar risk;
- the return must be sufficient to assure confidence in the financial integrity of the company; and
- the rate must be adequate to support the company’s credit and attract the capital necessary to discharge its public duties.

Public Service Commission Rate Proceedings – Generally

Currently, neither the Public Utilities Article nor COMAR limit what information PSC must use when determining the return on equity (ROE) in a rate case. However, PSC orders determining ROEs generally include the same types of information used by PSC when determining a rate. PSC Order No. 88432 demonstrates the process for determining the ROE as a technical and evidentiary inquiry. Among other things, PSC considers the following information in its proceedings:

- evidence from expert witnesses representing the utility, the Office of People’s Counsel, and PSC staff, among others, which PSC examines to make factual

findings regarding comparable risks to similar investments investors can make, the current capital market environment, and the financial integrity of the utility;

- analytical data from methodologies such as, but not limited to, the discounted cash flow and variants of the capital asset pricing model to calculate a recommended ROE; and
- comparative financial information to ensure the resulting return is comparable to investments of similar risk, sufficient to maintain financial integrity, and adequate to attract capital.

Additional Comments: Gas and/or electric utility rates may be affected as a result of the bill's changes to base rate recovery. The extent to which the bill results in a decrease or increase in rates cannot be reliably estimated at this time. In any event, gas and electric utility customers, including the State, local governments, and small businesses, are affected by any changes in rates that may result from the bill's changes.

In general, the U.S. equity market return refers to the money earned or lost by an investment in U.S. stocks over a specific period, typically expressed as a percentage of the initial investment often measured using major benchmarks or sectors in the economy.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Public Service Commission; Department of Legislative Services

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jg/lgc

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