

Department of Legislative Services  
Maryland General Assembly  
2026 Session

FISCAL AND POLICY NOTE  
First Reader - Revised

Senate Bill 2 (Senator Hester)  
Education, Energy, and the Environment

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Investor-Owned Electric, Gas, and Gas and Electric Companies - Cost Recovery  
- Limitations

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This bill prohibits an investor-owned electric, gas, or combination gas and electric company from recovering through rates any costs associated with (1) employee bonuses, as defined, except under specified conditions, or (2) supervisor compensation that exceeds 110% of the maximum annual salary payable to a member of the Public Service Commission (PSC). The bill also requires the board of directors of each investor-owned electric, gas, and combination gas and electric company to adopt a company-wide policy placing reasonable cost limitations on expenditures for entertainment and events, office and facility renovations, transportation services, staff development activities or events, performance incentives, and other activities outside the scope of the normal course of business operations.

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Fiscal Summary

**State Effect:** The bill's changes can be absorbed within existing budgeted resources. State utility expenditures may decrease, as discussed in the Additional Comments below. No effect on revenues.

**Local Effect:** Local utility expenditures may decrease, as discussed in the Additional Comments below. No effect on revenues.

**Small Business Effect:** Potential meaningful. Utility costs may decrease, as discussed in the Additional Comments below.

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## Analysis

**Bill Summary:** An investor-owned electric, gas, or combination gas and electric company may recover the costs associated with paying an employee a bonus through rates if the employee (1) has a written employment contract that was executed by December 31, 2025, or (2) is covered by a valid collective bargaining agreement.

“Bonus” means a form of direct or indirect payment, consideration, or compensation that is paid or conveyed to an employee of a public service company in addition to the employee’s base pay. The term includes (1) compensation that the public service company does not formally label as a bonus payment; (2) any form of incentive compensation the fact and amount of which is under the discretion of the public service company until a time close to the end of the period for which the incentive payment is paid; and (3) payments given in addition to base pay that are contingent on the occurrence of one or more events or conditions.

“Compensation” means a form of payment or consideration conveyed to or for the benefit of a supervisor in connection with the supervisor’s work for a public service company. The term includes (1) direct and indirect methods of conferring benefits; (2) cash and noncash benefits; (3) salary, bonuses, period payments, and severance pay; and (4) the value of a perquisite, compensatory or paid leave, or other benefit, except as specified. “Compensation” does not include any expenditure of a public service company for health, medical, or life insurance or disability pay.

### **Current Law:**

#### *Costs Excluded from Recovery through Rates*

Chapters 625 and 626 of 2025 prohibit an investor-owned electric, gas, or combination gas and electric company from recovering through rates any cost associated with:

- membership, dues, sponsorships, or contributions to an industry trade association, group, or related entity exempt under § 501(c)(6) of the Internal Revenue Code; or
- the acquisition, use, or allocation of costs associated with a private plane that is owned or leased by the company or its holding company.

Under PSC regulations, charitable contributions, penalties, and lobbying expenses are not allowed for rate-making purposes. Additionally, expenses classified as promotional, community affairs, or institutional must be excluded as an expense for rate-making purposes unless a utility demonstrates during a rate case proceeding that a particular item of advertising or promotional expenditure was directly beneficial to the ratepayer and in the public interest.

## *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.

**Additional Comments:** Gas and/or electric utility rates may decrease – or future rate increases may be minimized – as a result of the bill’s prohibitions and limitations on cost recovery. The extent to which the bill results in a decrease in rates cannot be reliably estimated at this time. In any event, utility customers, including the State, local governments, and small businesses, benefit from any decrease in rates that may result from the bill’s changes.

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### **Additional Information**

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

**Designated Cross File:** HB 1 (Delegate Crosby, *et al.*) - Environment and Transportation.

**Information Source(s):** Public Service Commission; Office of People’s Counsel; Department of Legislative Services

**Fiscal Note History:** First Reader - January 22, 2026  
caw/lgc Revised - Clarification - April 2, 2026  
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