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Office of People's Counsel

State of Maryland

Public Service Commission Order No. 91683: **Estimated savings from the PSC's new policy eliminating ratepayer subsidies for new-customer gas lines**

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Organization of report

- Gas line connection policy after PSC Order No. 91683
- Gas spending on new-customer connections before PSC Order No. 91683
- Estimated savings from PSC Order No. 91683
- Key takeaways on PSC Order No. 91683 gas line extension policy changes

Gas line connection policy after PSC Order No. 91683

The Maryland Public Service Commission (PSC) has ordered fundamental changes to eliminate the gas utilities’ ability to recover from existing customers the costs of adding new customers to their gas systems.

Maryland Public Service Commission Order No. 91683

- In Case No. 9707, OPC requested that the Commission prohibit outdated and costly subsidies for extending utility gas systems for new customers.

- PSC Order No. 91683 (June 13, 2025):
  - PSC agreed that current subsidies create future cost risks for customers and are incompatible with State climate goals
  - Order mandates the elimination of ratepayer-funded subsidies for gas line extensions
  - New customers will be required to pay the full cost of connecting their home or business to gas service

What’s changing because of Order No. 91683?

End of Free Extensions

New gas customers must pay full actual cost immediately or under a short-term plan

Effect on Rates

Utilities can no longer recover line extension costs from existing customers through rate increases

Universal Application

Change applies to all residential & commercial customer extension projects

Uniform Policy

All gas utilities must follow the same rules

Next steps PSC Staff drafting regulations - Due December 1, 2025

Gas spending on new-customer connections before PSC Order No. 91683

Maryland gas companies have been spending tens of millions annually to expand the size and capacity of delivery systems to serve new customers. They have recovered those costs from existing customers through rate increases.

Gas System Expansion Investment Policies Before Order No. 91683

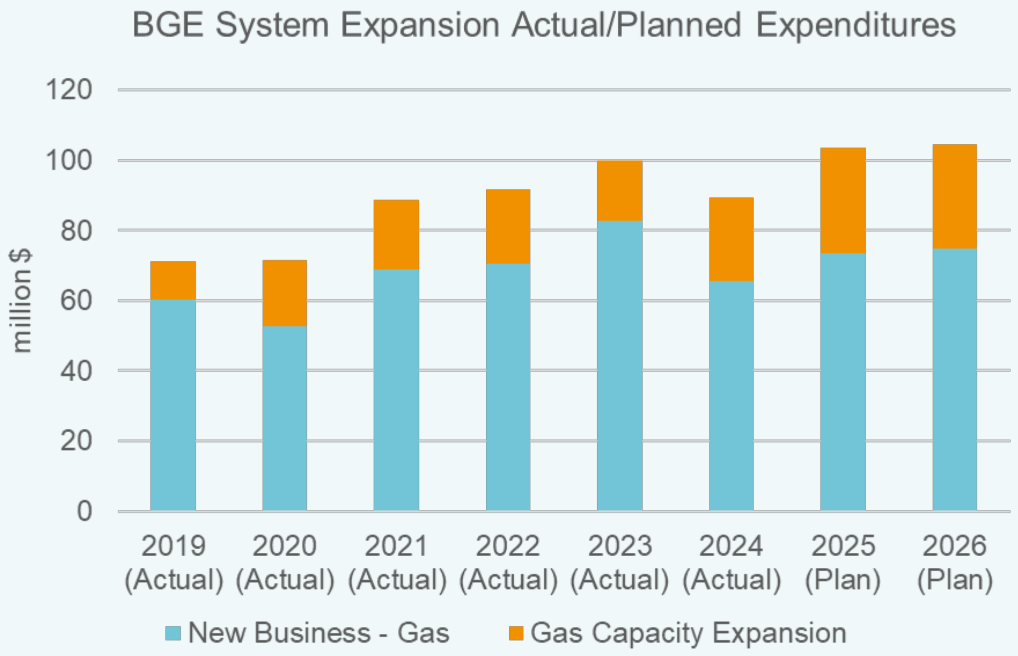
In the absence of the new policies adopted in Order No. 91683, most cost recovery for connecting new customers occurs through the rates paid by existing and new customers alike.

- System expansion investments are generally pursued under one of two investment categories:
  - New business investments that increase the size of the distribution system with new mains and services installed to connect a customer or group of customers not previously served; and
  - Capacity expansion investments that increase system capacity to meet the increased requirements of new customers and any incremental new demand from existing customers.

- New-customer growth has been promoted by line extension policies that allow customers to connect to the system with either no upfront payment or only a nominal upfront contribution to project costs.
  - Baltimore Gas and Electric's (BGE) policy provides residential line extensions at no cost when no extension of a gas main is necessary and the service line extension is less than or equal to 150 feet. Beyond 150 feet, the customer pays an additional $21.81 per foot for the portion over 150 feet. *BGE Tariff, Section 8.2*.
  - Washington Gas Light's (WGL) tariff sets no limit on the length of the service line for a no-cost residential extension and only potentially requires a payment if a new main installation is needed to serve the new customer(s). *WGL Tariff, General Service Provisions.*
  - Columbia Gas of Maryland installs up to 150 feet of service line from its main to the customer's meter at no cost. For extensions longer than 150 feet, the customer may be required to pay for the entire cost beyond 150 feet depending on the results of an economic test. *Columbia Gas's Tariff, Rules and Regulations Governing the Distribution and Sale of Gas, Section 8, Extensions, Section 8.1.1.1.*

System expansion spending: BGE

- Annual expenditure on new business & capacity expansion categories has averaged $85 million from 2019-2024, totaling $512 million.
- In 2025, BGE plans to spend $103.5 million.*
- In 2026, BGE plans to spend around $104.6 million.**



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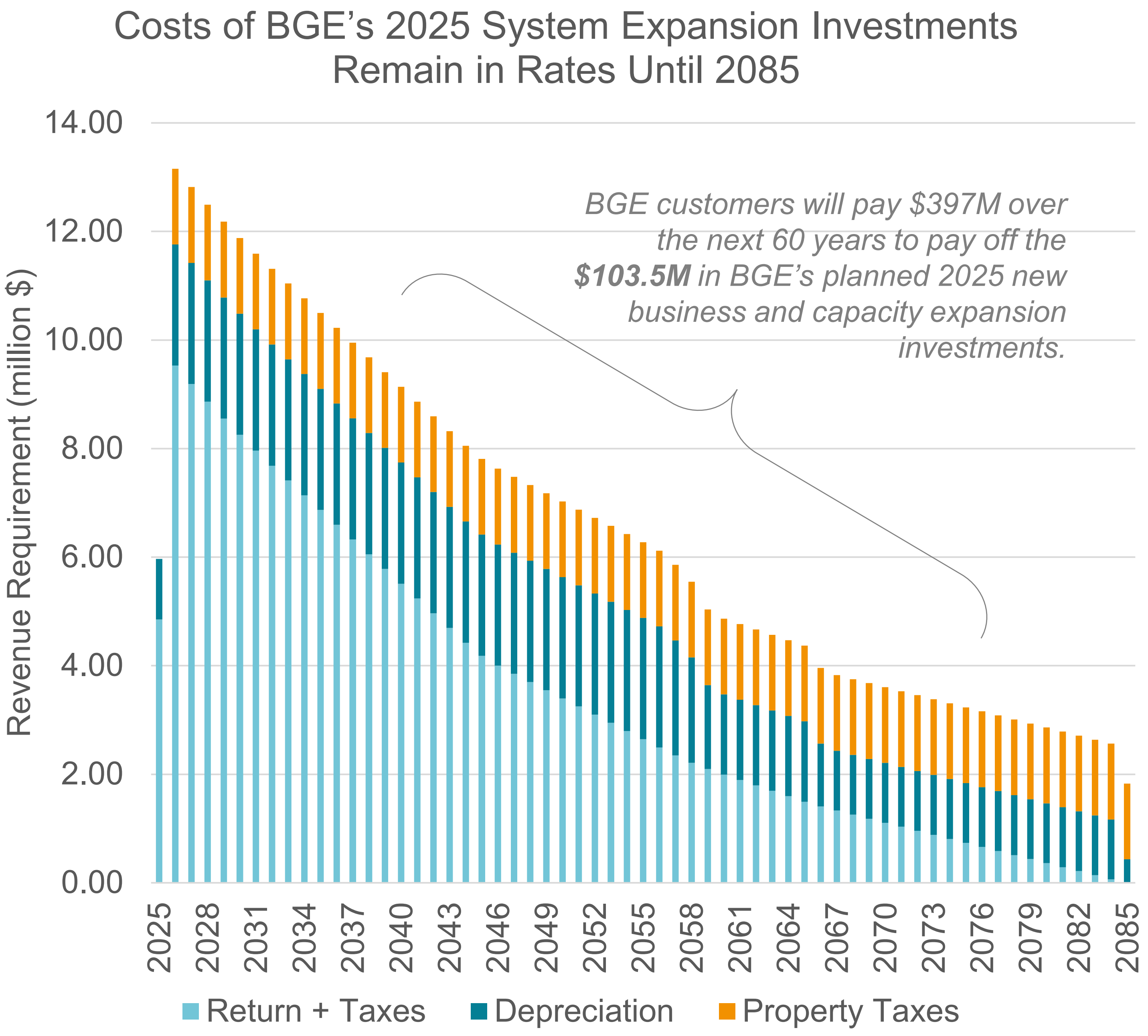
*2025 planned amount is based on BGE's 2025 second multiyear rate plan (MYRP2) project list. **The 2026 amount reflects the 2025 plans with a 1.5% growth in new business and 0% growth in capacity expansion investments. These assumptions are based on the relationship between the 2025 and 2026 budgets presented for these categories in BGE's initial MYRP2 plan.

BGE customers will pay over 60 years for just one year of BGE's investments in new business and capacity expansion

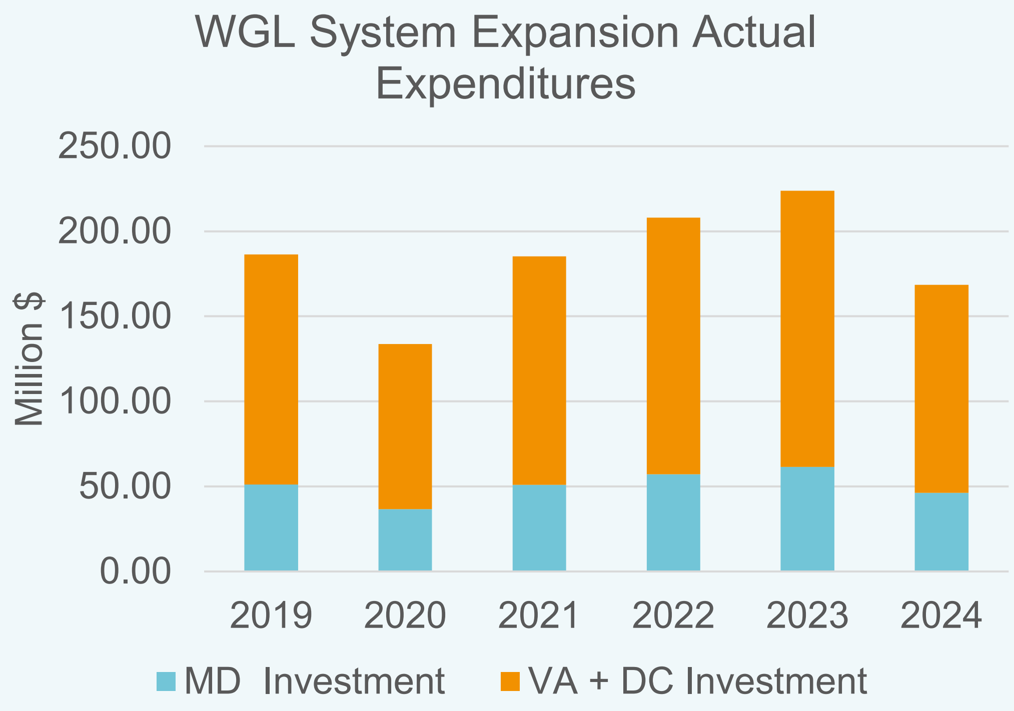
- For example, the $103.5M of investments in new business and capacity expansion projects planned for 2025 will be collected from customers through rates until 2085, costing customers **$397 million.**
- $397M in total revenue to be collected:
  - $207M – Utility return (including profits) + Income Taxes*
  - $106M – Depreciation*
  - $84M – Property taxes*
- Total costs are 3.8x the initial investment

* *Includes corresponding bad debt, PSC assessment, franchise tax*



System expansion spending: WGL

- Annually WGL has spent around $134 million on new business and system expansion in MD/DC/VA between 2019-2024; Maryland's share is 37.9%, or $50.6M per year.*
- Maryland's estimated costs:
  - $303.9M in total
  - $50.6M per year ($56.25M in 2024 dollars)

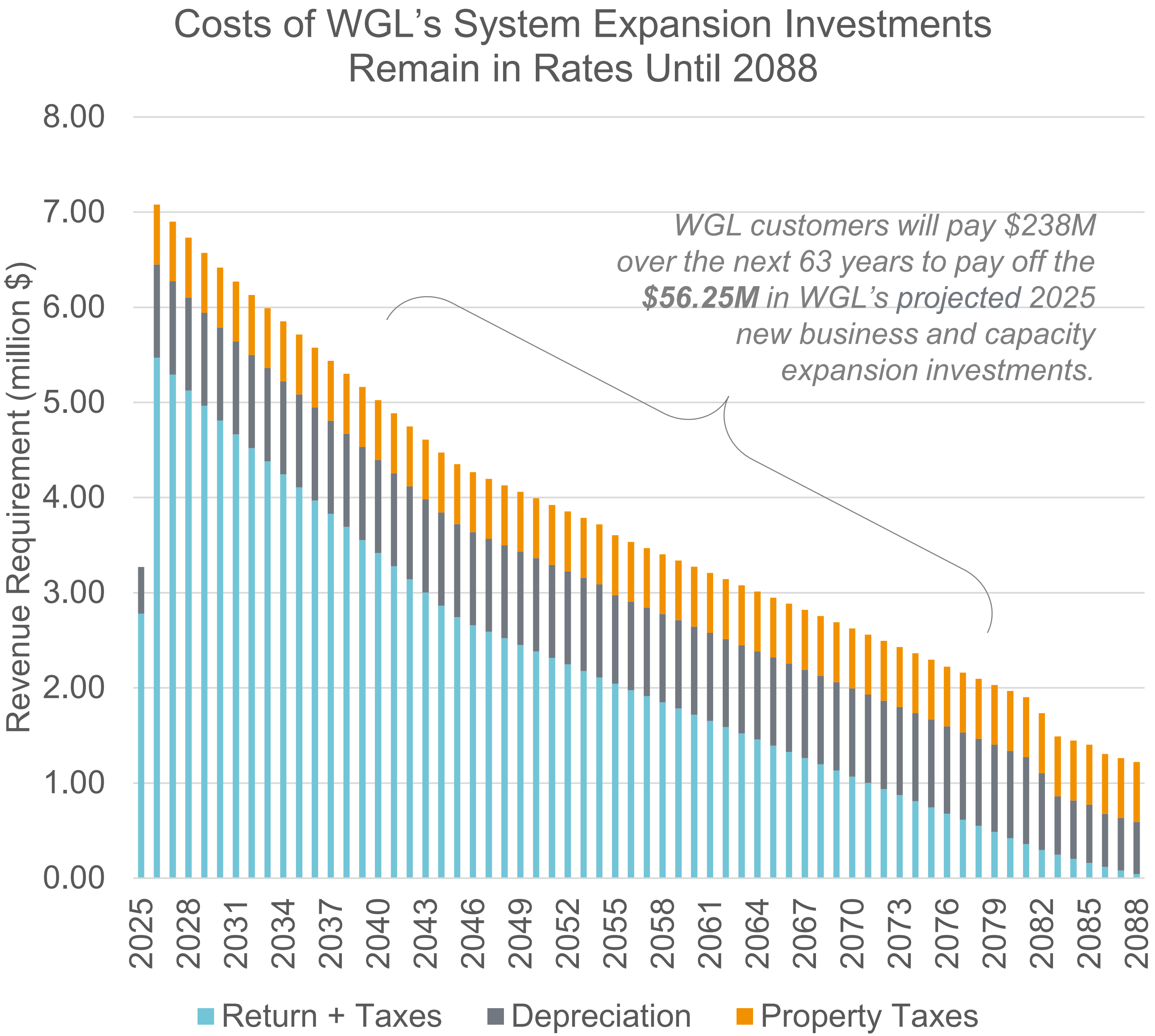


*Some of these numbers had to be estimated due to changes in how WGL presented new business and expansion investments starting in the 2022 financial reports. **The 37.9% is based on the apportion of plant-in-service to WGL's MD service area in its most recent base rate filing.

WGL customers will pay over 63 years for just one year of WGL's investments in new business and capacity expansion

- For example, the projected $56.25M of investments in new business and capacity expansion projects for 2025 will be collected from Maryland customers through base rates over the 2025 to 2088 period.
- $238M in total revenue to be collected:
  - $139M – Utility return (including profits) + Income Taxes*
  - $59M – Depreciation*
  - $40M – Property taxes*
- Total costs are 4.2x initial investment

** Includes corresponding bad debt, PSC assessment, franchise tax*



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Estimated savings from PSC Order No. 91683

Changes to gas line extension policies will have near-term impacts on utility capital spending that reduce utility revenue needs and lower bills for existing customers.

"[T]he Commission is persuaded that new natural gas customers should pay the full cost of extending service to them, thus minimizing any future potential for stranded costs with respect to new extensions, and reducing any subsidization of gas extensions."

PSC Order No. 91683 at pages 8-9.

Expected Impact of Order No. 91683 on System Expansion Expenditures

- **New business (customer growth) expenditures will be eliminated from company capital investment plans.**
  - Pre-Order No. 91683, most costs of connecting to the gas system are recovered through the rates paid by existing and new customers alike.
  - After PSC Order No. 91683, existing customers will no longer subsidize the costs of extending gas service to new customers, and new customers are required to pay 100% of project costs.
- **Capacity expansion expenditures should also be reduced from company investment plans.**
  - Anticipated reduction in customer growth from a change in line extension policy will reduce upward pressure on system demand from new customers.
  - At the same time, demand from existing customers may fall with competition from highly efficient electric appliances, concerns about the health and safety of gas, and State incentives for electrification.

How will the new line extension policy impact current gas customers?

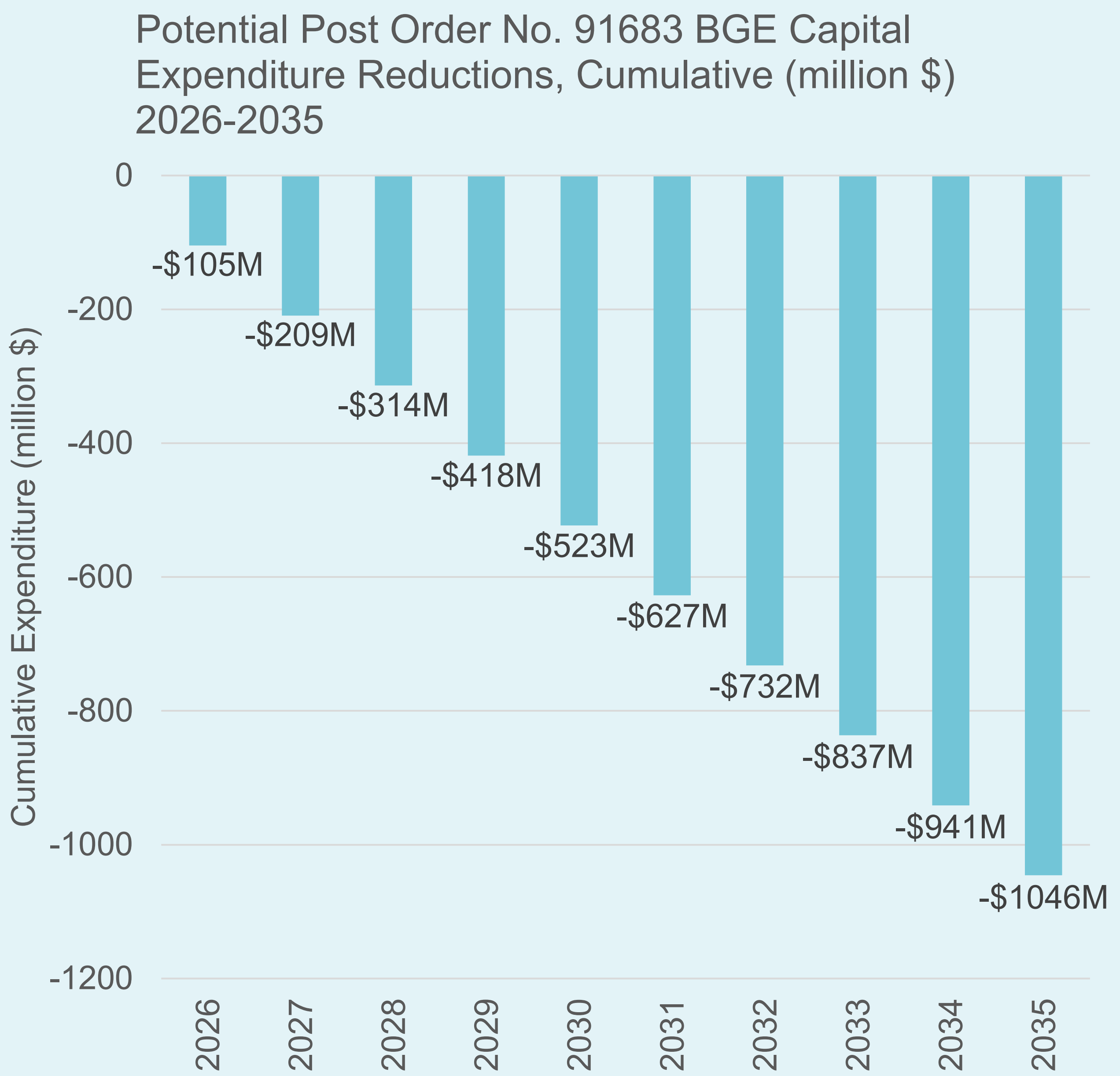
Reduced expenditures on new business and capacity expansion projects will have immediate benefits for existing gas customers—by slowing the growth of gas company rate base which will lower future revenue requirements and avoid rate increases.

To estimate what the potential savings for WGL and BGE customers might be from the extension line policy change, this analysis:

- assumed that, absent Order No. 91683, new business and capacity expansion spending would continue at estimated/planned 2025 levels;
- assumed that Order No. 91683 eliminates spending on new business connections and the need for capacity expansion investments starting in 2026;
- estimated the reduction in future revenue requirement (rate) increases from the eliminated expenditures; and
- compared these reductions to the revenue requirement forecasts projected for this period in OPC's Feb. 2025 Gas Spending Report.

Estimated reduction in BGE system expansion investments, 2026-2035

- BGE's second multiyear rate plan (MYRP2) project list includes $103.5 million in new business and capacity expansion projects for 2025.
- Based on BGE's MYRP2 initial plan and its MYRP2 year 1 and year 2 project lists, we estimate 2026 spending at around $104.6 million.
    - The estimate assumes that the 2025 project list budgets for both categories will grow at the same rates envisioned in MYRP2 plan.
    - BGE's MYRP2 plan indicated that new business spend would rise about 1.5% from 2025 to 2026 and capacity expansion would remain the same.
- We assume that without the changes in policy required under Order No. 91683, expenditures on new business and capacity expansion would continue at 2026 levels ($104.6M).
- Assuming Order No. 91683 is in place in 2026, customers would avoid responsibility for **$1.05 billion** in gas utility capital expenditures on system expansion through 2035.



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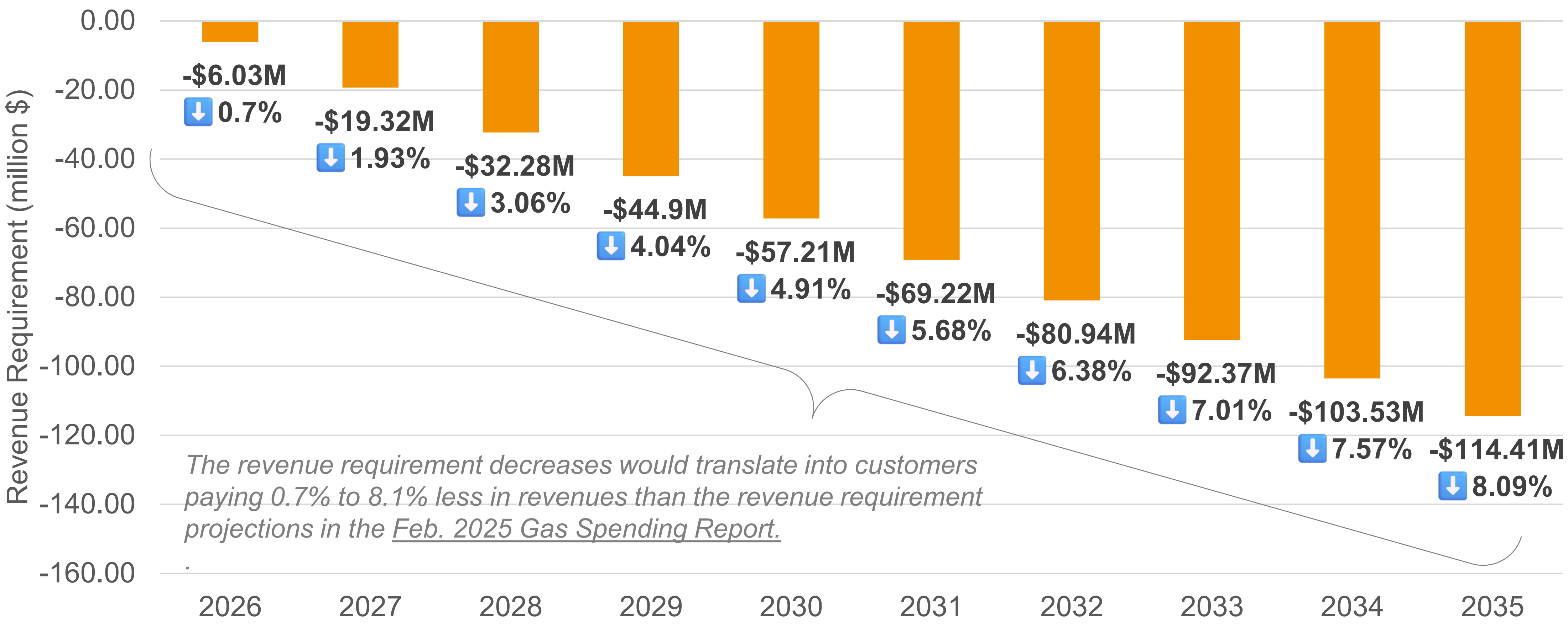
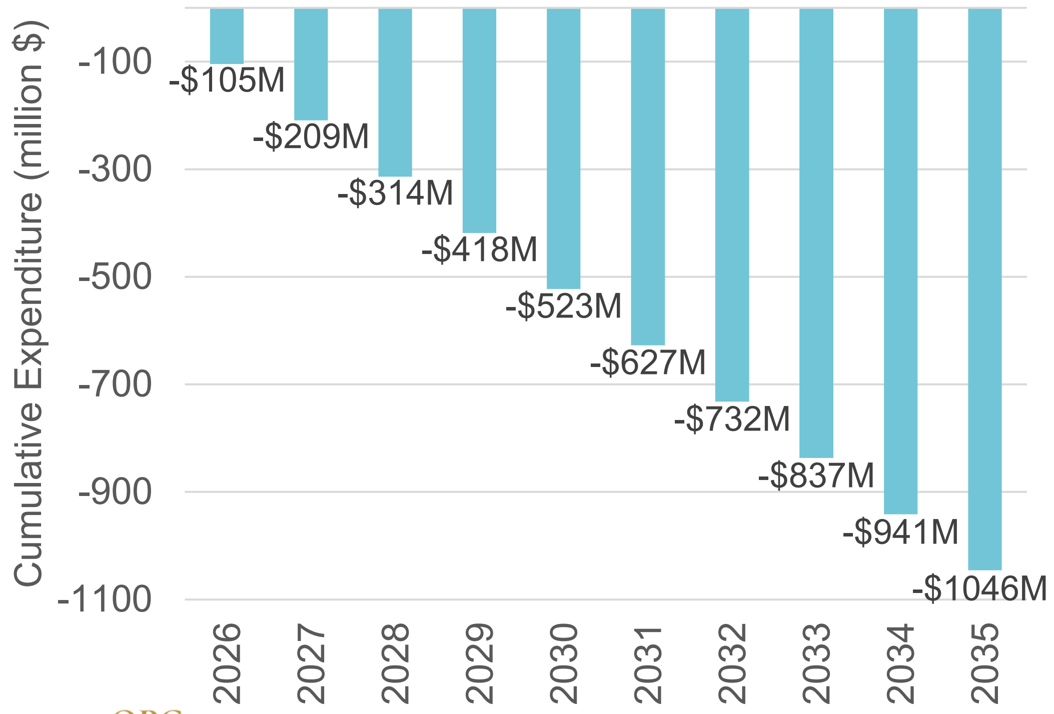
The estimated reduction in 2026-2035 BGE investments would reduce BGE's annual revenue needs by $6M to $114M each year

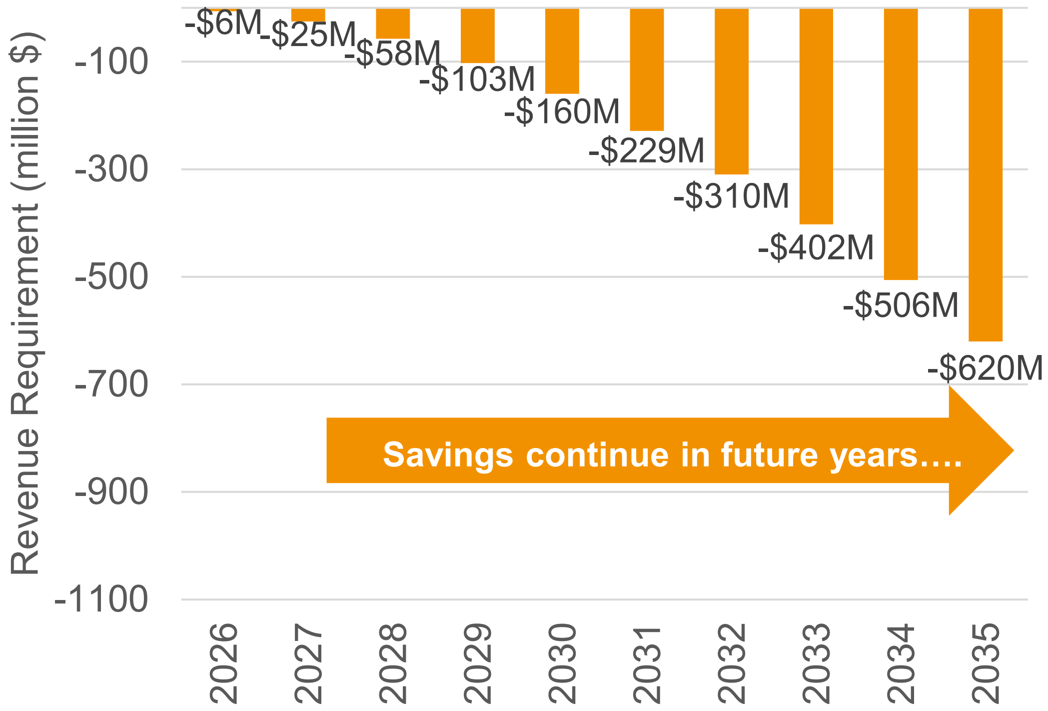


The $1.05B estimated reduction in 2026-2035 BGE investments would avoid rate increases totaling $620M over just the next 10 years

Cumulative Reduction in BGE Investment (million $)

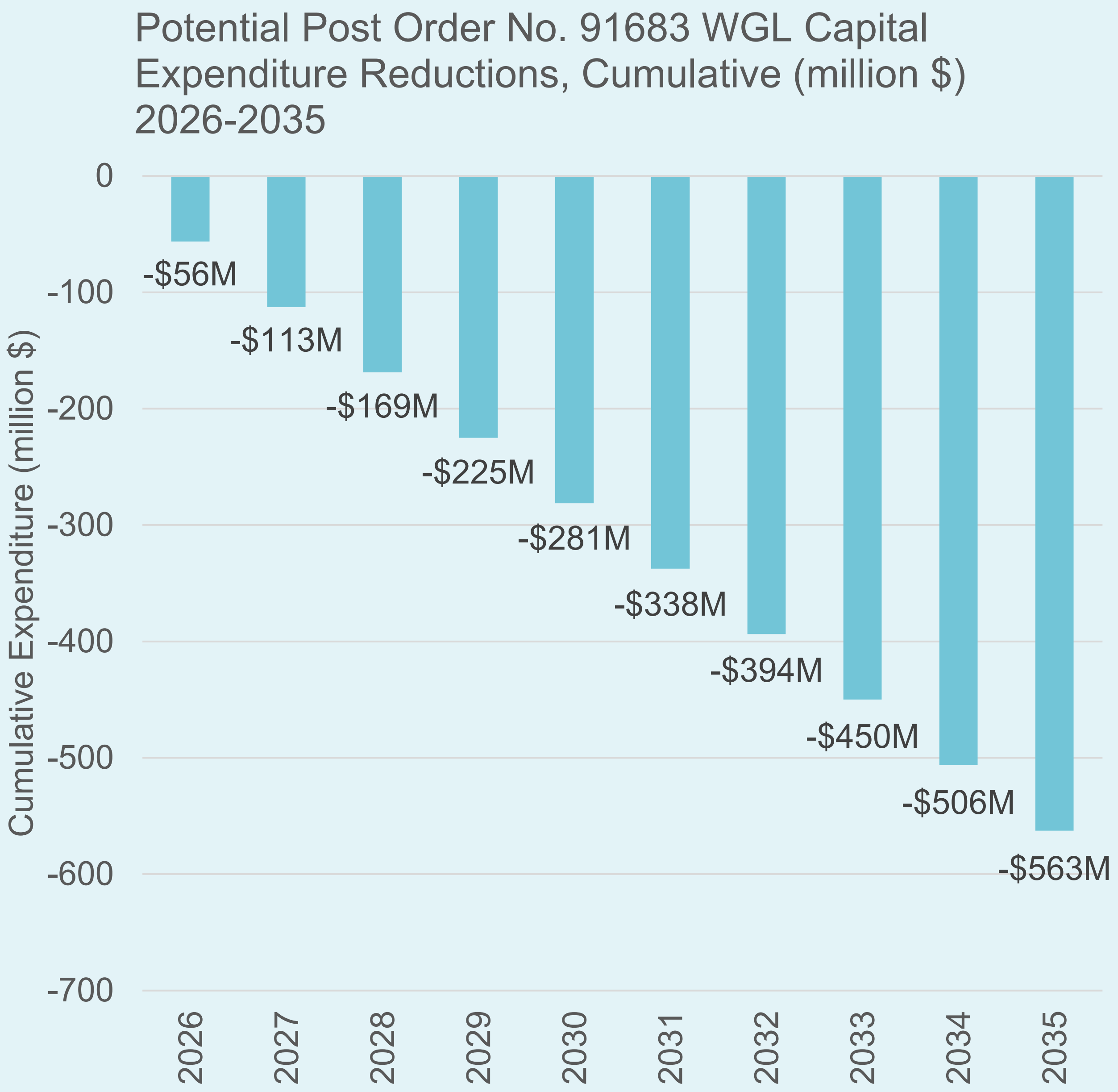


Cumulative Reduction in BGE Revenue Requirement (million $)



Estimated reduction in WGL system expansion investments, 2026-2035

- WGL has averaged approximately $50.6M per year in new business and capacity expansion investments in Maryland since 2019:
    - This is based on the 37.9% apportion of WGL's $134 million six-year average investments in new business and capacity expansion from 2019-2024.
    - WGL new business and capacity expansion investments were derived from investment amounts presented in annual investor financial reports (10-k filings).
- Inflation adjusted six-year average for Maryland = $56.25M
- We assume that without the policy changes required under Order No. 91683, WGL's expenditures on new business and capacity expansion would continue at the six-year inflation-adjusted average levels ($56.25M).
- Assuming Order No. 91683 is in place in 2026, customers would avoid responsibility for **$563 million** in gas utility capital expenditures on system expansion through 2035.



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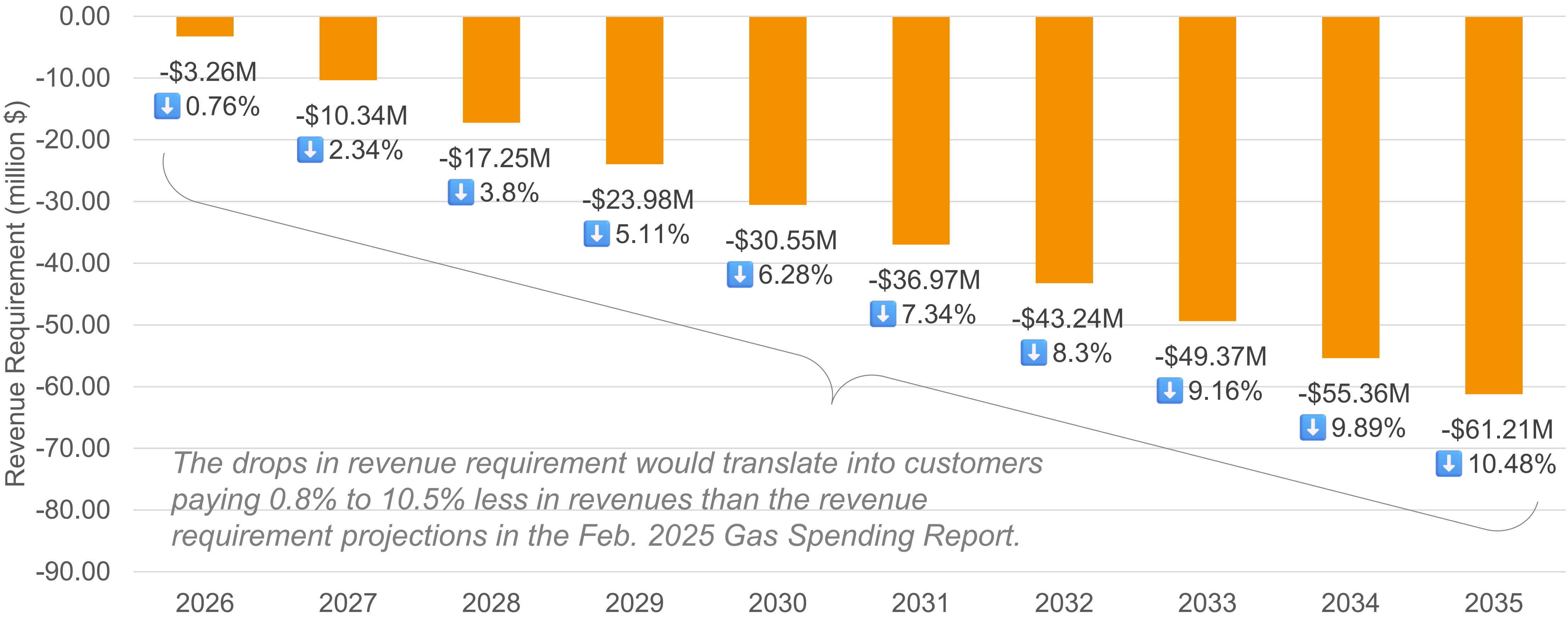
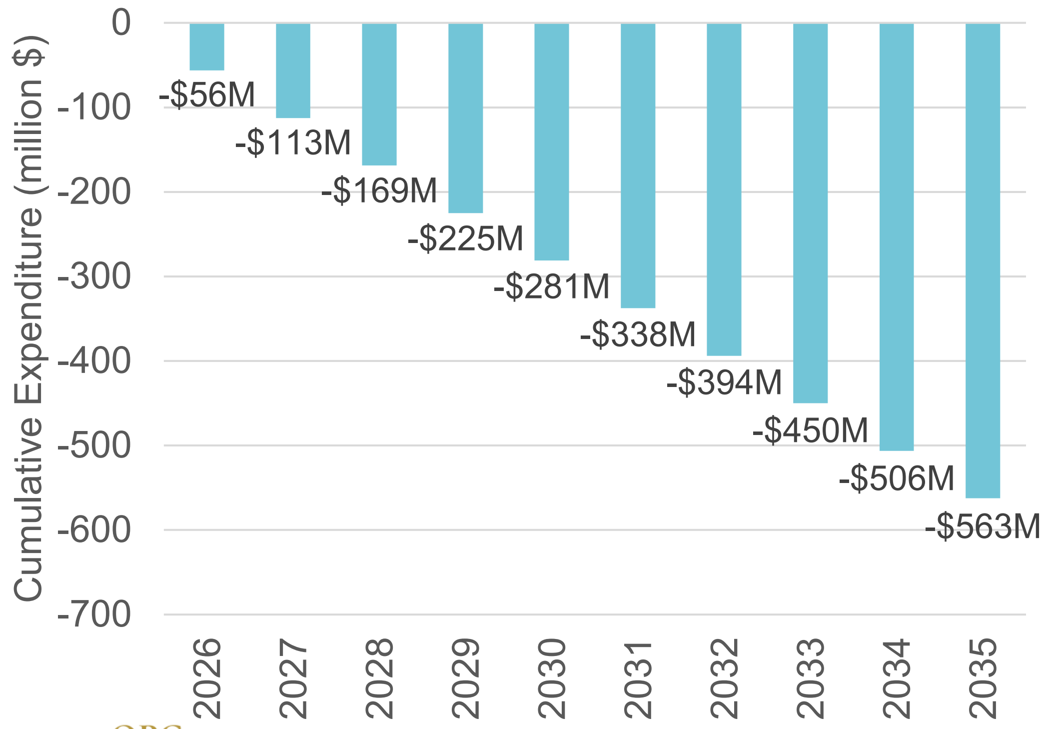
The estimated reduction in 2026-2035 WGL's investments would reduce WGL's annual revenue needs by $3.3M to $61M each year

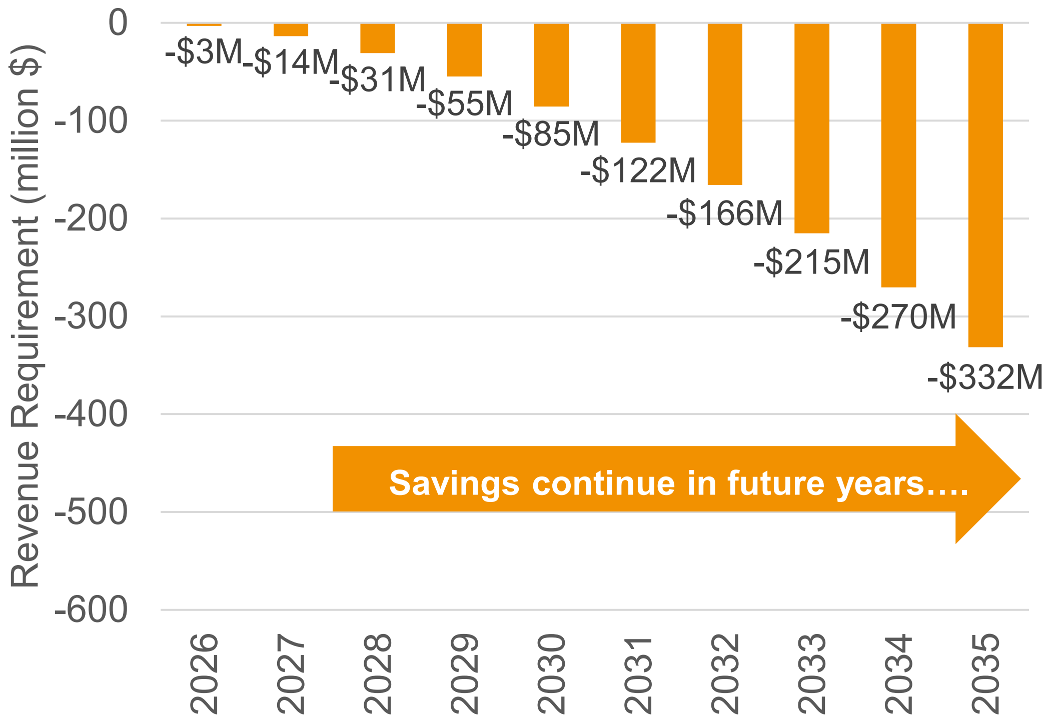


The $562.5M estimated reduction in 2026-2035 WGL investments would avoid rate increases totaling $332M over just the next 10 years

Cumulative Reduction in WGL Investment (million $)



Cumulative Reduction in WGL Revenue Requirement (million $)



Key Takeaways on PSC Order No. 91683 gas line extension policy changes

Fundamentals of Order No. 91683's gas line extension policy changes

- **Fact #1 - Existing customers will experience lower bill increases in the future because of this change in policy.**
  - As OPC has demonstrated in its gas spending reports, capital investment expenditures have driven a rapid increase in base rates over the last decade.
  - Reductions in capital expenditures on system expansion projects will unequivocally result in lower revenue requirements in future rate proceedings and correspondingly will mitigate future bill increases.
- **Fact #2 - Removing subsidies aligns gas connection policies with standard ratemaking principles.**
  - Existing no-cost or low-cost connections were offered under the prior policy based on assumptions that new customers would remain gas customers for 30+ years and that they would rely on gas as the primary energy source for heat, hot water, cooking, and clothes drying.
  - The new policy will assign the costs of extending the gas system to the new customers who are causing those costs to be incurred.
- **Fact #3 - Order No. 91683 does not restrict consumer choice.**
  - The PSC has not restricted or banned new gas line extensions.
  - Households and businesses looking to receive new gas service are still able to request service as usual.
  - The only change is that these new customers must now pay for the entire cost of connections upfront or agree to a payment plan to spread the entire cost over monthly payments.