



Office of People's Counsel Agency Briefing

Before the House Economic Matters Committee
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Briefing Outline

1. Office of People's Counsel: Who we are and what we do
2. Why we need effective public utility regulation
3. Priority issues
4. The 2023 session

Office of People's Counsel: Who we are and what we do

Public Utilities Article, Title 2, Subtitle 2

OPC is the statutory representative of State residential utility customers, charged with protecting their interests

Two core responsibilities under PUA § 2-204:

1. “[E]valuate each matter pending before the Commission” and “appear before the Commission and courts”
2. “[C]onduct investigations and request the Commission to initiate proceedings”

Office of People's Counsel: Who we are and what we do

In determining whether residential customers are affected, our statute directs us to—

“ consider the public safety, economic welfare, and environmental interests of the State and its residents, including the **State's progress toward meeting its greenhouse gas emissions reductions goals**”

PUA § 2-204

Legislation:

“ If the Office of People's Counsel considers that the legislation would affect the interests of residential and noncommercial users, the Office of People's Counsel may recommend to the General Assembly legislation on any matter related to the Commission's jurisdiction.”

PUA § 2-205

Office of People's Counsel: Who we are and what we do

State work (focus of this presentation)

1. Public Service Commission
2. Other State agencies/commissions
3. Consumer assistance
4. Courts

Federal work

1. Federal Energy Regulatory Commission (FERC)
2. Generation, Transmission, PJM
3. Roughly 60% of customer electric bills regulated at federal level



Three Key Takeaways

Why public utilities
need effective
regulation

Why gas utility infrastructure
spending is a key public
policy concern

Why lower income Marylanders
need policy support in ways that
don't increase utility rates

Why we need effective public utility regulation

Core regulatory principles

1. Utilities have State-granted *monopolies*
2. Competitive forces do not constrain prices or induce performance
3. Public interest \neq utility private interest
4. Regulation serves many purposes
 - a. Optimize utility performance: price and innovation
 - b. Ensure just and reasonable rates, no undue discrimination
 - c. For traditional consumer protection—e.g., deceptive marketing
 - d. Promote interests of customers and State policy—e.g., transforming the energy sector to meet State climate objectives consistent with customer interests

Why we need effective public utility regulation

Areas of customer risk

1. Unnecessary or inflated capital spending
 - a. Lack of transparency and data sharing
 - b. Undue deference to utility planning
2. Diversification into non-regulated businesses and self-dealing
 - a. Ratepayer cross-subsidies
 - b. Harm to competition/anti-competitive conduct
 - c. “Brain drain”
3. Unnecessarily complicated corporate structures
 - a. Evade effective State regulation
 - b. Exploit regulatory gaps

Why we need effective public utility regulation

How utilities earn profits

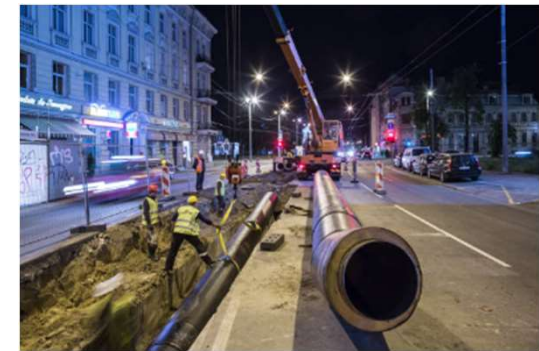
Capital expenditures increase rate base – spending on infrastructure such as buildings, pipes, concrete, wires, computers, and other capital assets

Capital expenditures = larger rate base = greater profits for investors

Rate base is recovered over a long time, along with profit—many decades

Utilities do NOT earn a profit for investors from:

- Commodity costs – kilowatt hours* and gas molecules (therms)
- Operating and maintenance costs, including repairs of pipes and wires
- Salaries and other compensation



* Electric utilities earn a small return on the kilowatt hour sales they make for providing standard offer service

Why we need effective public utility regulation

How utilities earn profits

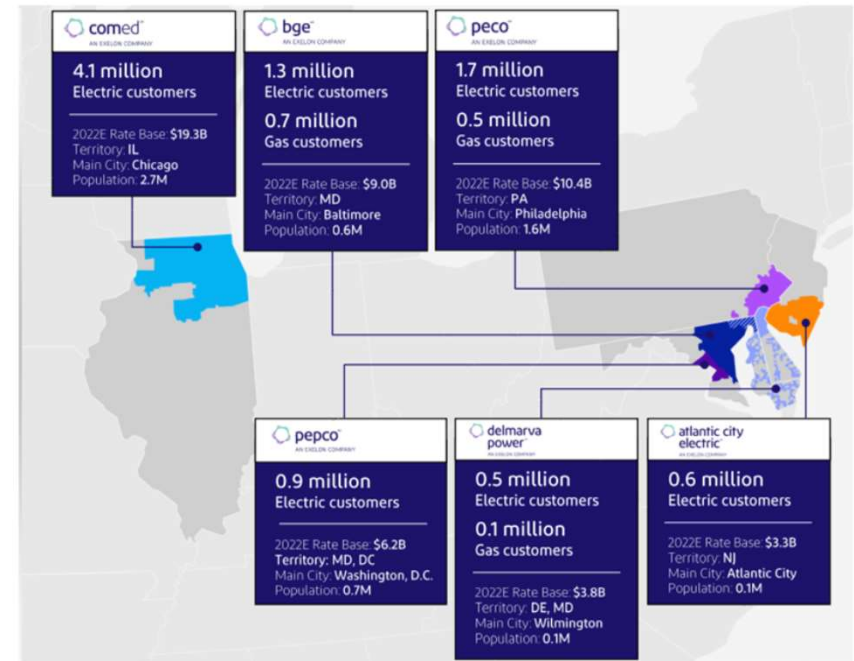
\$52.0 billion
Rate base estimate for 2022

\$29.0 billion
Projected capital investment through 2025

Who is Exelon?

- 6 T&D-only utilities**
Operate within seven regulatory jurisdictions
- 4 major metro areas served**
Chicago, Philadelphia, Baltimore, and Washington D.C.
- 18,700**
Employees across our operating companies
- 10.5 million⁽¹⁾**
Electric and gas customers served across our service territories
- 25,600**
Square miles of combined service territory across our jurisdictions
- 182,550**
Circuit miles of electric and gas distribution lines
- 11,150**
Circuit miles of FERC-regulated electric transmission lines
- \$18.0 billion**
Operating revenues recorded at our utilities in 2021
- \$52.0 billion**
Rate base estimate for 2022
- \$29.0 billion**
Projected capital investment through 2025

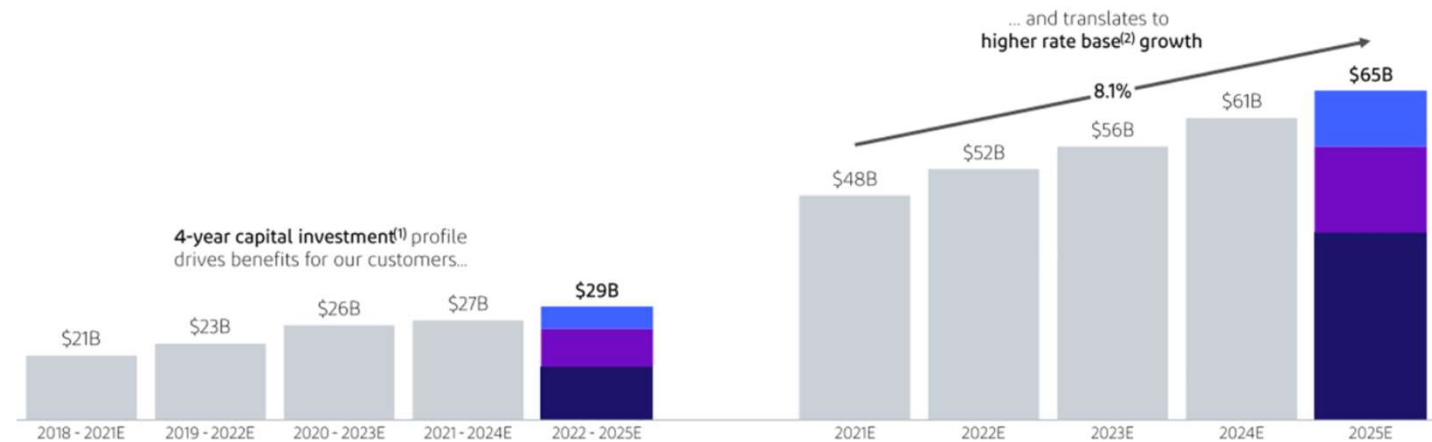
(1) Customer base reflects the sum of Exelon's total gas and electric customer base. Exelon consolidated customer count may not sum due to rounding.



Why we need effective public utility regulation

How utilities earn profits

Customer Needs and Industry Trends Continue to Support Investment Growth



\$18.9B of electric distribution investment projected for 2022-2025

\$6.4B of electric transmission investment projected for 2022-2025

\$3.7B of gas delivery investment projected for 2022-2025

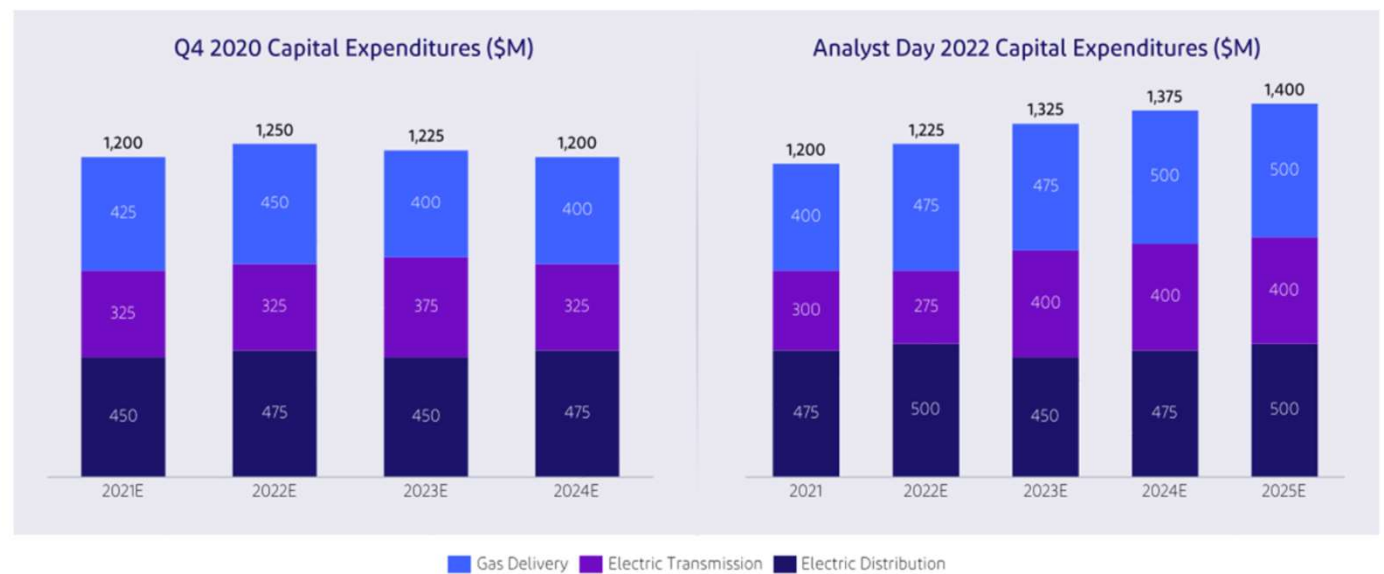


(1) 4-year capital outlook reflects forecast as presented on prior Q4 earnings calls (exception is 2022-2025E, which reflects capital forecast as presented at Analyst Day 2022)
(2) Reflects year end rate base projections as presented on Analyst Day 2022

Why we need effective public utility regulation

How utilities earn profits

BGE Capital Expenditure Forecast



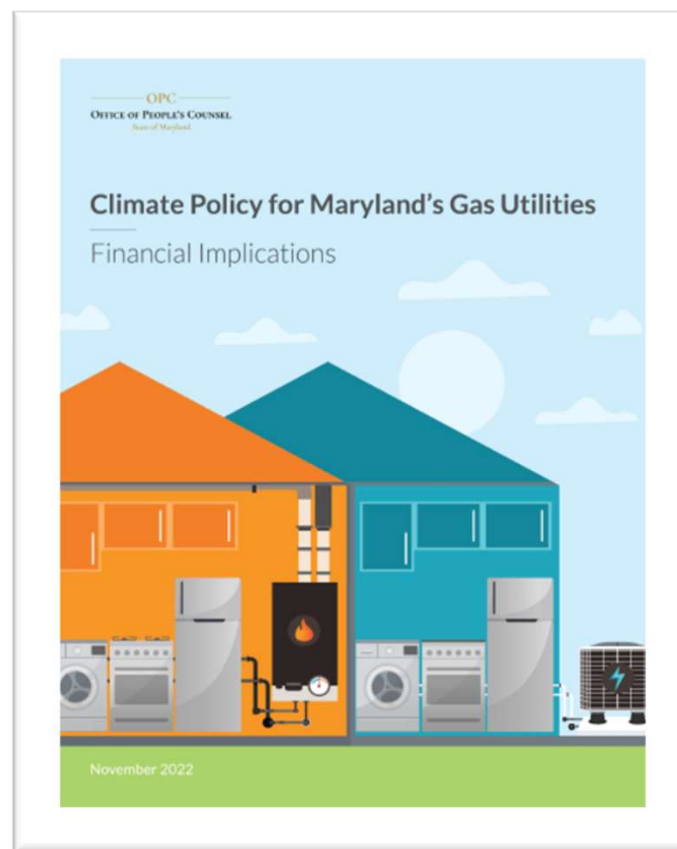
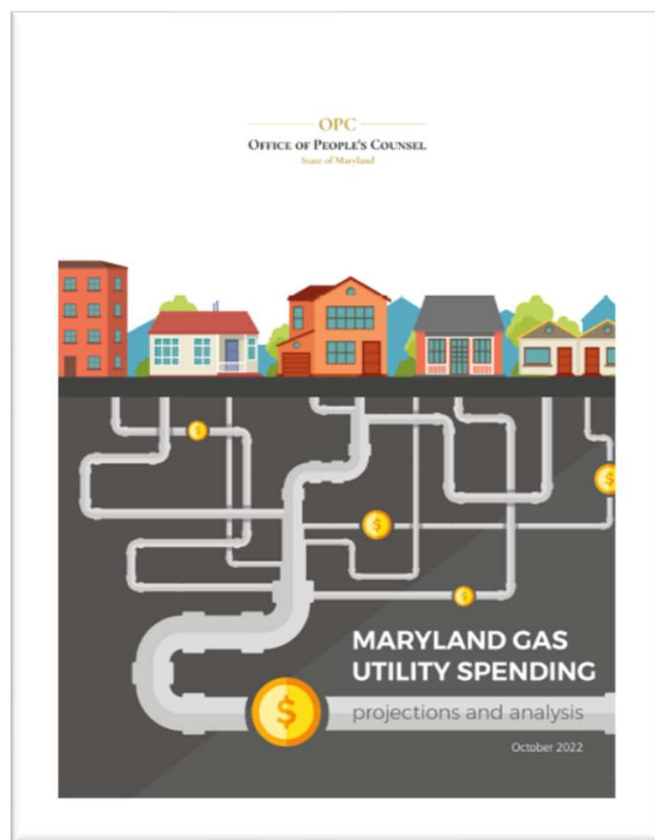
Project ~\$5.3B of capital being invested from 2022-2025

Note: Numbers rounded to nearest \$25M and may not sum due to rounding. Q4 2020 disclosures dated February 24, 2021. Analyst Day 2022 disclosures dated January 10, 2022, excluding 2021, which was updated for year-end actuals.

exelon

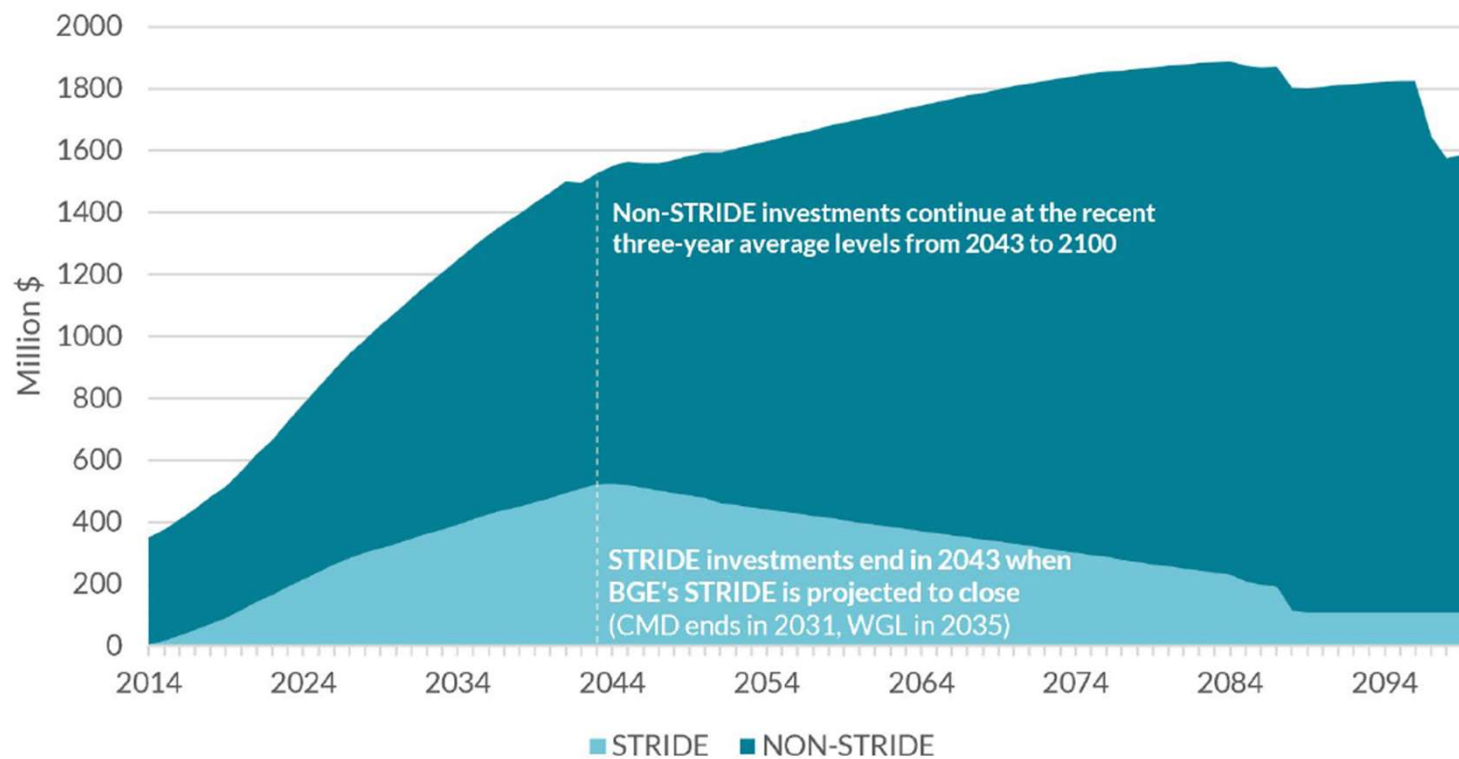


Priority issue: Future of gas



Priority issue: Future of gas

Figure 3.2: Combined Three-Company STRIDE and Non-STRIDE Revenue Requirement



Priority issue: Future of gas

Role of non-fossil fuels is limited. Options include hydrogen and various forms of gas including renewable, synthetic, and biomethane (alternative gaseous fuels or AGF)

- Significant challenges related to cost, emissions, safety, and energy use during production
- None are available now at scale or at a price similar to fossil gas
- Competition for AGF likely to be fierce
- AGF useful for hard-to-electrify economic sectors—aviation, industrial processes, and electric generation
- In contrast, new buildings are more cost-effective to electrify

Renewable Natural Gas is “very expensive” and “cost-prohibitive to offer for customers.”
—Eric Evans, director of strategy and risk integration, NiSource, at PSC January 18, 2023.

Priority issue: Future of gas

Annual Bill (2020\$)

	2021	2035 AGF range	2050 AGF range
BGE	\$820	\$1,464 to \$1,944	\$4,634 to \$6,759
WGL	\$780	\$1,315 to \$1,868	\$3,827 to \$6,270
CMD	\$1,086	\$1,818 to \$2,408	\$3,979 to \$6,591

AGF = Alternative Gaseous Fuels, including non-conventional fuels such as hydrogen and various forms of natural gas including renewable, synthetic, and biomethane.

Priority issue: Electrification

Electrification is cost effective and already happening

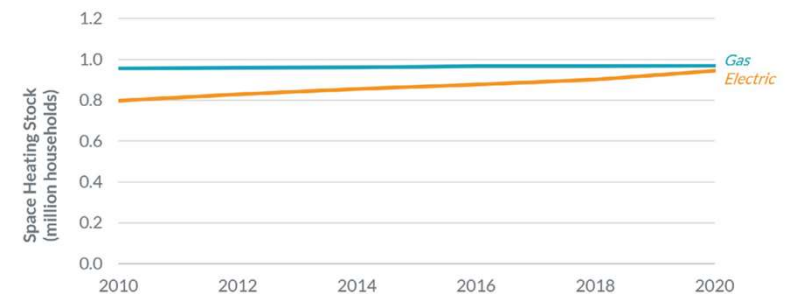
Highly efficient electric heat pumps—

- Replace both air conditioners and furnaces, at much lower overall cost
- Cost much less for new residential buildings
- Are capable of heating at extremely low temperatures (5 deg. F)

Gas costs are rising and will rise, increasing the advantages of electric technologies

Electrification takes time and appliances have useful lives of > 10 years—so it's important to get moving to meet State GHG reduction goals

Figure 1. Gas and Electric Space Heating Stock in Maryland Households, 2010-2020



Source: US Census Bureau: American Community Survey, Table DP04: Selected Housing Characteristics for Maryland, 5-year Estimates. June 2, 2022. Available at: https://data.census.gov/cedsci/table?q=DP04&q=0400000US24&tid=ACSDP5Y2020_DP04

Priority issue: Electrification

Low-and-moderate income customers at risk

- Death spiral as customers migrate from gas to electric
- State policies are necessary to help them electrify early

State policies should not depend (at least exclusively) on rates for financial support

- Using utility rates to support State policies hurts lower-income households
- Energy rates are regressive—everyone pays the same, regardless of income
- Applies to low-income support, renewable energy, energy efficiency (EmPOWER)

Priority issue: Electrification

Reliability should be comfortably maintained by the transmission & distribution (T&D) systems

- There was higher growth in peak load in the 1950s and 1960s than is likely with gradual replacement of fossil-based home heating systems with electric heat pumps
- Maryland utilities' reliability measures are currently among the best in the U.S.
- December 2022 holiday issues were related to generation, not T&D systems

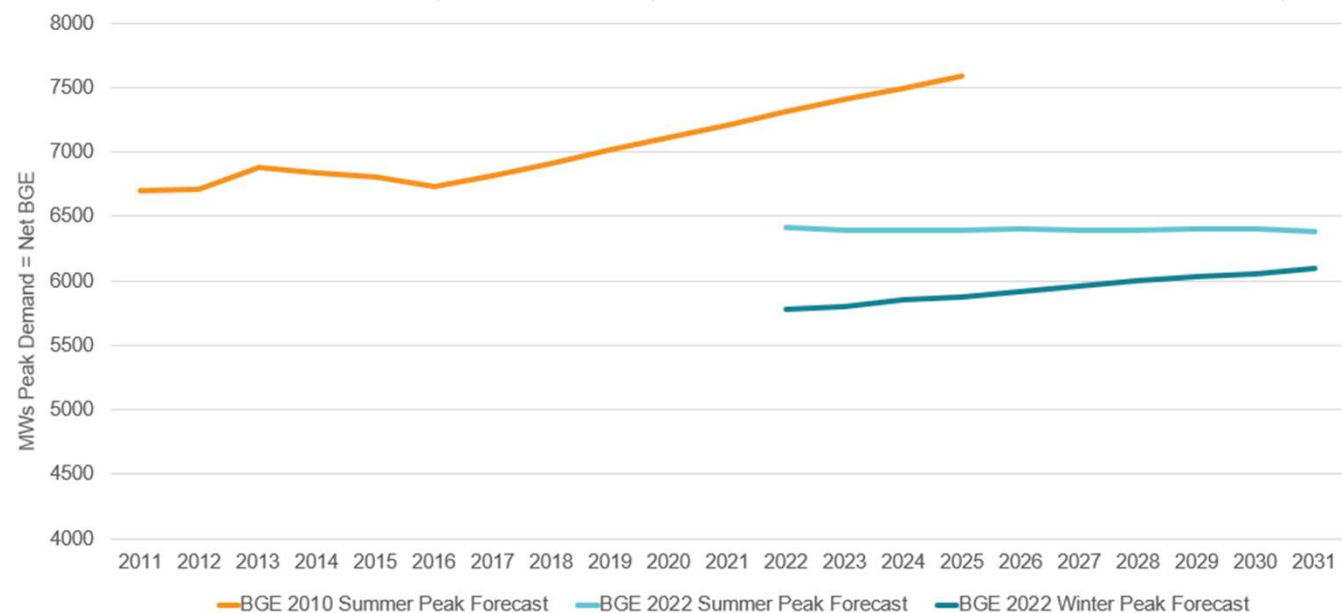
Example: Baltimore Gas & Electric

- Anticipated much higher peak load growth in 2010 than has occurred
- Met a higher summer peak demand in 2011 (7,500 MW) than it projects for 2035 (<6,500 MW) (PJM filings)
- Since 2010, has spent more than \$4 billion on its distribution and transmission system (at a total to customers of more than \$12 billion)

Priority issue: Electrification

What about the distribution and transmission systems

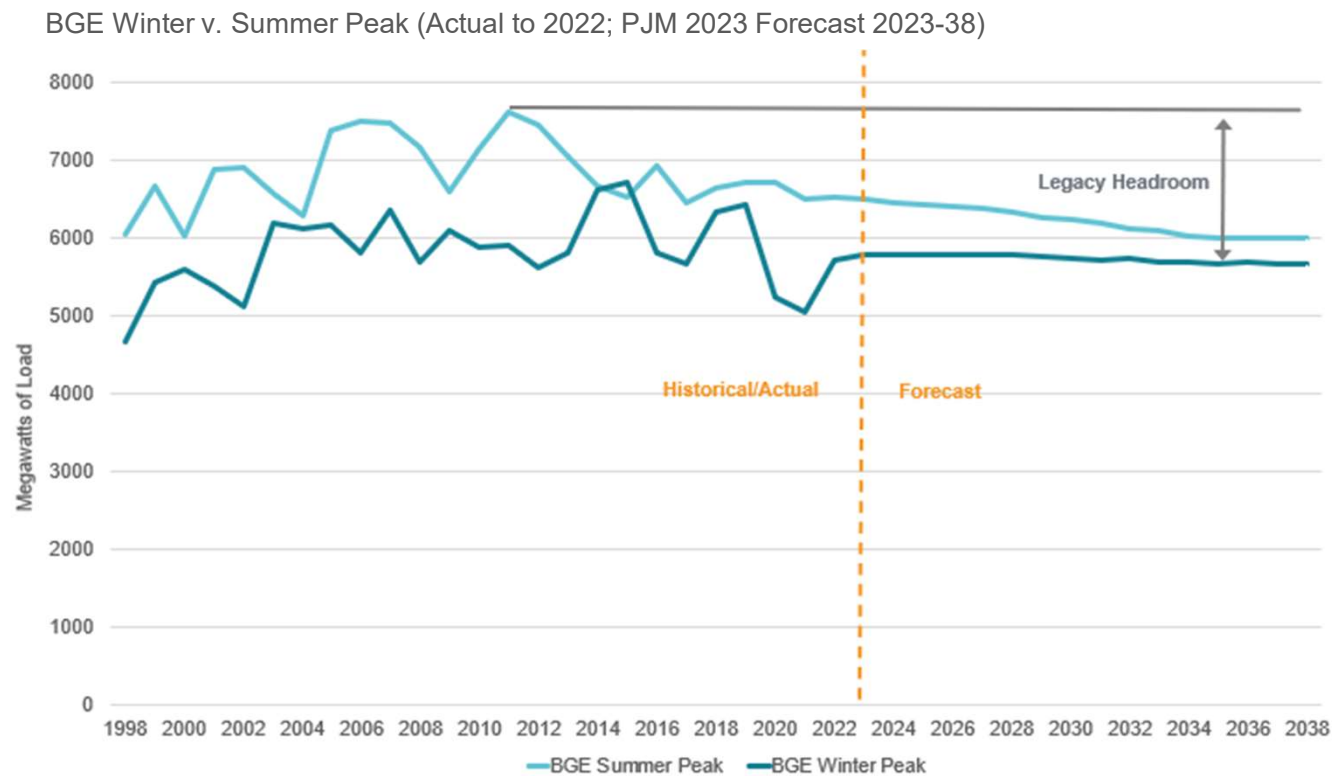
BGE 2010 Net Peak Demand Forecast (Annual, Summer) Compared to 2022 Net Peak Demand Forecasts (Summer and Winter)



Based on filings with the Public Service Commission

Priority issue: Electrification

What about the distribution and transmission systems



Based on data from PJM

Three Key Takeaways

Public utilities need effective regulation because they are monopolies and, left unchecked, will pursue their private interests over the public interest.

Gas utility infrastructure spending raises important public policy concerns because gas customers and sales are declining, leaving in question who will pay the legacy costs.

Lower income Marylanders need early financial support for electrification because of the risk of a death spiral.

The 2023 Session

1. Renewable energy
2. All-electric construction code
3. EmPOWER
 - a. Low-income energy efficiency
 - a. Promote fuel switching
 - b. End fossil-fuel appliance incentives
4. Planning for gas system shrinkage (60%-100% reduction in gas volume)

See the [Recommendations of the Maryland Commission on Climate Change](#)



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