OPC

OFFICE OF PEOPLE'S COUNSEL

State of Maryland

A Consumer's Guide To:

BGE's Proposed Multi-Year Rate Plan

The price that utility companies like Baltimore Gas & Electric (BGE) charge customers must be approved by the government. In Maryland, rates are reviewed and approved by the Public Service Commission (PSC). While in other industries competition incentivizes companies to keep prices low, utilities are regulated because they do not have to compete against other companies in their service areas. As regulated entities, utilities enjoy lower market risks than other industries.

What Is BGE's Proposed Multi-Year Rate Plan?

Each time a regulated utility company wants to increase the price it charges for distributing electricity or natural gas, the company files an application with the PSC. In February 2023, BGE filed an application for a multi-year rate plan (MRP) requesting that the PSC approve a series of rate increases over three years. This MRP is BGE's second; the PSC approved its first MRP in 2021.

An MRP does not just determine three years of rate adjustments at once, but also fundamentally changes how rates are set. In a standard rate case, the justification for a rate increase is based on prior year spending by the utility company. This allows the PSC to assess how reasonable the company's spending was when determining rates and setting levels of cost recovery for future years. In an MRP, rates are instead based on projected spending, with little accountability.

Compared to standard rate setting procedures, an MRP also allows utilities to charge customers for the costs of projects *before* those projects are used to serve customers. In their rates, customers may even pay for projects the utility has not even started working on yet. This recovery method reduces the utility's regulatory risk by allowing much faster cost recovery, shifting risk of utility overspending away from utility investors to customers.

In an MRP, rates are based on projected spending, with little accountability. An MRP also allows utilities to charge customers for the costs of projects before those projects are used to serve customers.

What Rate Increase Is BGE Proposing?

BGE's MRP application requests to increase the rate charged for the *distribution* of energy—the rate charged for delivering gas and electricity to your home. Most of the commodity cost (the cost of the energy itself) is passed directly through to customers. The utility does not control other costs, such as taxes, that are included in a customer's bill. Separating out the distribution rate increases from the rest of the utility bill provides a clear picture of the rate increases BGE is proposing. The charts below provide BGE distribution rates from past years for context, the current rates, and the rates requested by BGE.

BGE Actual and Proposed
Gas Distribution Rates

	Year	Rate ($/therm)	% Increase from 2023
ACTUAL	2010	$0.30	
	2020	$0.60	
	2023	$0.67	
PROPOSED	2024*	$0.96	43%
	2025	$1.01	51%
	2026	$1.08	61%

BGE Actual and Proposed
Electric Distribution Rates

	Year	Rate ($/kWh)	% Increase from 2023
ACTUAL	2010	$0.025	
	2020	$0.037	
	2023	$0.042	
PROPOSED	2024*	$0.051	21%
	2025	$0.049	17%
	2026	$0.055	31%

**Rates in 2024 include a "reconciliation adjustment," an aspect of the MRP that allows BGE to charge ratepayers for spending in 2021 and 2022 that exceeded the originally approved rates. 2025 and 2026 do not include reconciliation adjustments that may be imposed in the future.*

BGE's proposed distribution rates for gas would increase rates by more than three times what BGE charged in 2010, while electric rates would more than double. The last year that rates were in place as a result of a standard rate case (instead of an MRP) was 2020.

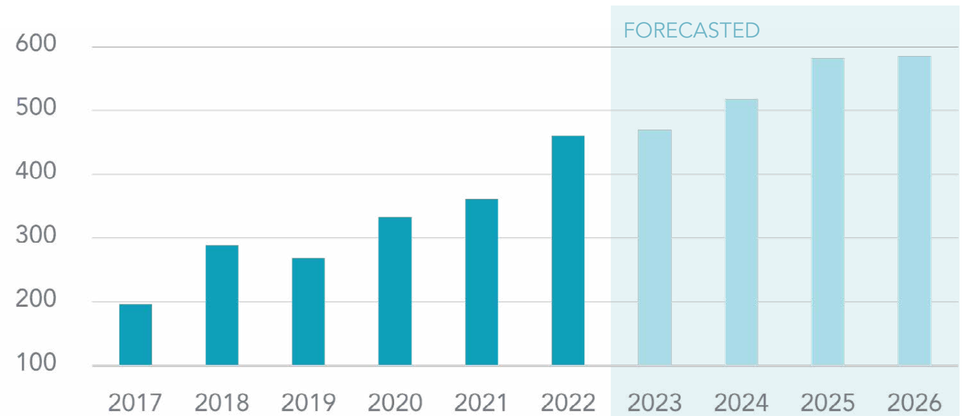
Why Is BGE Proposing Changes to Rates?

Distribution rate increases are primarily driven by spending on infrastructure. Utility infrastructure is necessary to maintain safe and reliable service. Distribution rates generally will stay constant if the utility is replacing and building new infrastructure at the same rate as older infrastructure is paid off or retired. But if infrastructure is replaced or added more quickly, distribution rates will increase. Utility investors profit primarily from spending on infrastructure, with more spending bringing greater returns. Thus, effective regulation is necessary to ensure utilities spend at appropriate levels.

If infrastructure is replaced or added more quickly, distribution rates will increase. Currently, BGE is spending at a rate of more than $1.2 million per day on capital gas infrastructure.

Currently, BGE is spending at a rate of more than $1.2 million per day on capital gas infrastructure, and this spending goes beyond promoting the reliability and safety of the system for existing customers. In 2022, BGE spent $78 million to connect new customers and expand its gas distribution systems. These costs are included in the rates paid by all ratepayers. For electricity, BGE's distribution plant additions would almost triple BGE's spending from 2017 to 2026.

BGE Electric Distribution Plant Additions ($ millions)

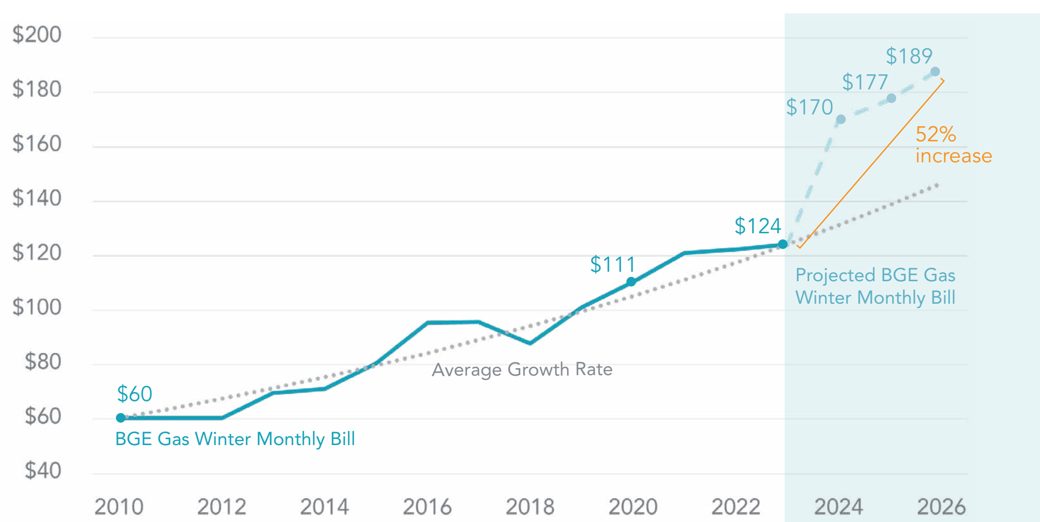


What Would This Mean for My Energy Bill?

Assuming that gas usage in the winter averages 160 therms per month, under BGE's proposed MRP, a customer's monthly winter bill for distribution (excluding commodity costs) would grow from $111 in 2020 to $189 in 2026, an increase of 70%. For electric usage of 1,000 kWh/month, a customer's distribution bill would grow from $45 in 2020 to $65 in 2026, an increase of 44%.

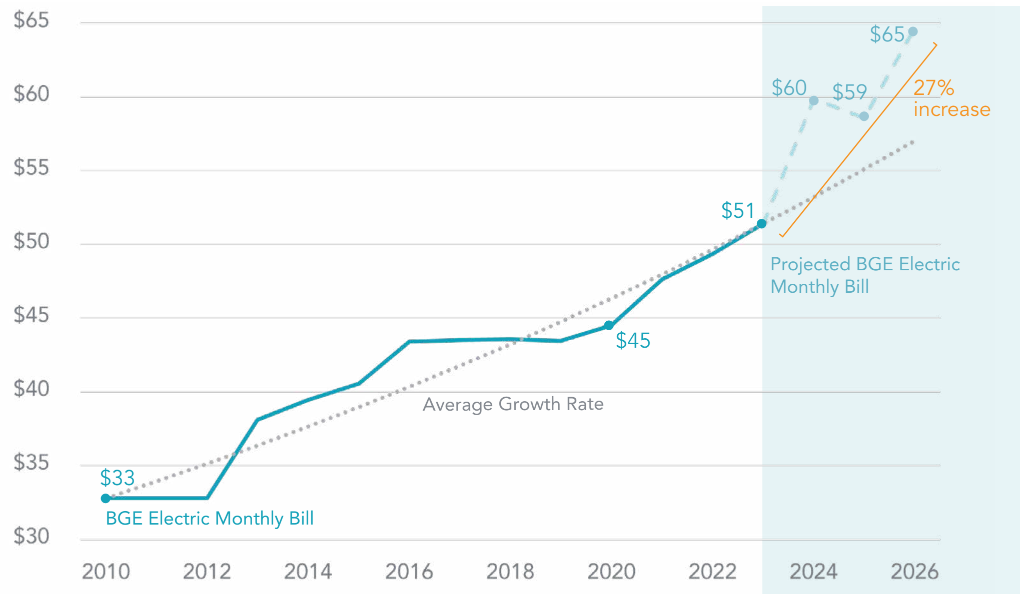
A customer's winter gas and electric distribution charges would grow from $156 in 2020 to $254 in 2026, a total increase of 63%.

Monthly Winter Bill for Gas Customer Using 160 therms/month, 2010 to 2026



**Note: A customer may use more or less than 160 therms/month.*

Electric Monthly Bill for Customer Using 1,000 kWh/month, 2010 to 2026



**Note: A customer may use more or less than 1,000 kwh/month. Rates in 2024 include a "reconciliation adjustment," an aspect of the MRP that allows BGE to charge ratepayers for spending in 2021 and 2022 that exceeded the originally approved rates. 2025 and 2026 do not include reconciliation adjustments that may be imposed in the future.*

The average rate of growth in distribution charges between 2010 and 2023 was 3.5% for electricity and 5.7% for gas. **BGE's rate increases proposed in its MRP outpace these historic growth rates, and are significantly higher than inflation, which averaged 2.5% from 2010 to 2022.**

In contrast to the summary above, BGE's application to the PSC presents a different picture of its proposed rate increases by using a "total bill" cost. BGE says that if approved, the MRP will result in an overall price increase of only 1.7% in total electric bills and 6.1% in total gas bills from 2024 to 2026. While this may be technically true based on certain assumptions about various components that comprise the "total bill" cost, BGE's figures obscure the *distribution* rate increases that are central to BGE's MRP proposal.

BGE's statement is also misleading because it refers to average annual rates of growth, and not the total growth over the three-year period. BGE's statement can be translated as, "over the course of the three-year MRP, residential customers will experience a combined electric and gas total bill increase of 15.8%." Cumulatively, applying its own assumptions about the average customer, BGE's proposal would, in fact, result in customers' gas and electric bills being, on average, $810 more for 2026 than in 2023.

Where Can I Learn More?

There will be public hearing dates and opportunities for public comment, which OPC will publicize once available. You can learn more at the Office of People's Counsel's website at https://opc.maryland.gov/.

June 20, 2023