



February 16, 2021

**SENATE FINANCE COMMITTEE
SB 506 – Public Utilities – Regulatory Assets – Prohibition**

Statement in Opposition

Chesapeake Utilities Corporation (“Chesapeake Utilities”) respectfully OPPOSES SB 506 which prohibits a public service company from receiving a rate of return on a regulatory asset created as a result of conditions addressed by a State of Emergency declared by the Governor.

SB 506 overrides the Commission’s authority and is unnecessary. The Maryland Public Service Commission (“the Commission”) was specifically created to be the expert regulator in the extremely technical area of public utility law. The Commission is well-informed by its own expertise and specialized staff and is charged with appropriately balancing the interests of utilities and utility customers on all matters. A “regulatory asset” is a unique regulatory mechanism that allows public utilities to recover large/unusual costs incurred as a result of unexpected or unforeseen events. Regulatory assets are important tools that help to protect the financial integrity of public utilities and allow them to continue to provide consumers with cost-effective service at reasonable prices over the long term. The General Assembly should not usurp the Commission’s jurisdiction in this area.

SB 506 impacts a utility’s ability to earn its rate of return. Because Maryland public service companies are monopolies, in exchange they are heavily regulated. By law, Public utilities are granted the “opportunity” to a specific rate of return on their assets that are used and useful in providing service to customers. Utilities are not “guaranteed” a rate of return – only the “opportunity.” This means that utilities must control their costs and make prudent decisions. The Commission reviews all costs incurred by a utility during periodic base rate cases. In this way, the Commission acts as a check on utilities to ensure they recover only prudently incurred costs. SB 506 would unilaterally prohibit utilities from earning their rate of return without regard to whether the company acted prudently or not. If unable to earn its return, a utility will be forced to file more frequent rate cases and potentially increase rates for all customers.

Not all emergencies are the same, and SB 506 attempts to impose a “one size fits all” rule. SB 506 would prohibit a return on a regulatory asset incurred during any state of emergency. While it is true that the Governor declared the current state of emergency in response to COVID 19, the Governor has declared numerous emergencies in the past for many different reasons. For example, the Governor has frequently declared emergencies in response to hurricanes, derechos and other extreme weather events that cause significant damage to a utility’s distribution system. SB 506 does not distinguish between emergencies. Eliminating the utilities’ opportunity to earn a return on costs incurred during all emergencies will lead to more frequent rate cases and higher borrowing costs.



For the reasons stated above, Chesapeake Utilities respectfully requests that your Committee give SB 506 an unfavorable report.