



An Exelon Company

Position Statement

OPPOSE
Finance Committee
02/16/2021

SB 506 Public Utilities – Regulatory Assets – Prohibition

Baltimore Gas and Electric Company (BGE) opposes *Senate Bill 506 Public Utilities – Regulatory Assets – Prohibition*. Senate Bill 506 prohibits a public service company, in its utility operations, from collecting a rate of return on a regulatory asset created as a result of conditions addressed by a state of emergency as declared by the Governor.

When a utility company seeks a regulatory asset it is often in response to a need to timely address system expenses related to emergencies such as storm response or the current pandemic. Regulatory assets benefit utility customers by smoothing out cost increases due to such emergencies. A regulatory asset is often recovered over multiple years vs. immediately in order to minimize customer impact.

The Public Service Commission (Commission) has the authority to approve or deny a return on the costs in a regulatory asset, based on case-specific facts. The Commission is charged with reviewing all of the components of a regulatory asset and given the expertise of the Commission, is rightly charged with making a case-by-case evaluation. In fact, the Commission ordered in BGE's most recent rate case that some costs could be included in BGE's COVID-19 regulatory asset, but were ineligible to earn a return. This demonstrates appropriate Commission oversight and evaluation of that regulatory asset.

Additionally, the rate of return on a regulatory asset is simply another cost incurred by the utility. In fact, in a regulatory asset, the rate of return often reflects the cost of "loaning" the money to cover the cost the asset. The arrearages included in the COVID-19 regulatory asset are essentially interest free loans to customers and the rate of return will help to compensate the company for the use of those funds, similar to an interest rate on a mortgage.

While the rationale for the bill is unclear, what is clear is that the bill could have meaningful unintended consequences impacting important system and emergency response. Discretion should be left to the Commission to make a case-by-case determination regarding a return on costs in a regulatory asset. Utilities should be encouraged to find solutions to emergent and urgent problems and address cost recovery for those related expenses with the Commission.

For these reasons, BGE respectfully requests an unfavorable report by the Committee on this legislation.