ADVANCING AN AFFORDABLE & EQUITABLE CLEAN ENERGY TRANSITION

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EXECUTIVE SUMMARY

Virginia is poised to be the first Southern state to make a massive and historic transition to clean energy thanks to the 2020 passage of the Virginia Clean Economy Act (VCEA). Commonsense changes to the laws governing electric utilities are essential to ensure that the resulting clean electricity is affordable and accessible for all Virginians.

CHALLENGE

The current state laws regulating electric utilities hinder an affordable and equitable clean energy transition in Virginia. Specifically, Virginia's regulatory system rewards investor-owned utility (IOU) monopolies for capital-intensive investments rather than cost-saving measures for customers. Electric IOUs receive guaranteed profits for capital investments, so the more expensive a project is, the more the utility profits.[1] Additionally, utilities are able to pass along 100% of fuel costs to customers and are incentivized to sell as much energy as possible instead of prioritizing energy efficiency, which saves money and reduces pollution.[2,3,4] As Virginia invests in a clean energy system, we need strong tools to ensure utilities pursue energy efficiency and least-cost, zero-carbon projects that benefit energy customers.

Current restrictions limit the State Corporation Commission's (SCC) ability to mitigate household energy costs during Virginia's clean energy transition. In a traditional regulatory model, utility monopolies recover costs and profits through base rates. Regulators establish these base rates in periodic reviews in which the SCC scrutinizes utilities' costs and sets a fair profit level. Since 2007, however, pro-utility legislation has introduced cost recovery mechanisms that allow utilities to pile fees onto customer bills while restricting regulators' ability to ensure Virginians pay a fair price for electricity.

This utility-backed legislation has resulted in Virginians paying some of the highest energy prices in the nation.[5] Three-in-four Virginia households pay an unaffordable percentage of their monthly income on electricity bills with a disproportionate burden falling on low-income, Black, Hispanic, Native American, and older adult households.[6,7]

SOLUTION

The clean energy transition provides an opportunity to ensure all Virginians have access to affordable and renewable energy. A successful 2020 bipartisan bill provides a practical playbook for doing so. House Bill 528 restored the SCC's authority to determine cost recovery periods for early power plant retirements and unlocked $300 million in refunds and a $50 million rate cut for Dominion Energy customers. Virginia needs additional measures that equip regulators to ensure the clean energy transition does not worsen the financial reality for low-income households and communities of color already experiencing the brunt of higher energy costs and impacts from the climate crisis. These measures include restoring the SCC's authority to determine the most cost-effective recovery mechanisms for utility spending and to fully refund customers when utilities overcharge.

Near-term regulatory reforms must be paired with a longer-term shift towards more environmental and social outcome driven profit incentives for a truly equitable transition to clean energy. The VCEA presents an opportunity to incentivize monopoly utilities to alleviate economic hardship, environmental injustices, and climate impacts. Connecticut, Illinois, North Carolina and Washington have passed laws to connect utility profits with societal goals like decarbonization and energy efficiency. Other states have advanced measures holding utilities accountable for fuel costs by splitting the risks associated with fossil fuel price volatility between utilities and customers. Passing immediate regulatory reform measures while exploring alternative structures to Virginia's utility incentive system will help ensure that an affordable and equitable clean energy future is on the horizon.

POLICY RECOMMENDATIONS

Restore the SCC's authority to reduce rates when utilities will profit above their authorized rate of return.

Restore SCC's authority to determine the most cost-effective recovery mechanism for utility spending.

Require utilities to refund 100% of customer overcharges.

Implement a cost-sharing mechanism that splits the risks of fossil fuel volatility between utilities and electricity customers.

Request that the State Corporation Commission and Virginia Energy study alternatives to the existing regulatory system, such as those that compensate utility investments based on environmental and social outcomes rather than a project's price.