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Cuccinelli concludes cost of bonuses to electric utilities outweighs benefits to customers

- Expresses hope that report will lead to legislative changes to benefit consumers and create jobs -

RICHMOND (November 29, 2012) -- Virginia attorney general Ken Cuccinelli released a [report](#) today that reviewed the costs and benefits of statutory Return-on-Equity (ROE) bonuses that are available to Virginia's two largest electric utilities if they undertake certain projects. The bonuses, called adders, which began when Virginia's electric utility regulation system was revamped by legislation that was first passed in 2007, allow utilities a higher return on equity, or potential profit, for meeting goals related to renewable energy or for the construction of new electric generation facilities.

"In 2007, Virginia significantly changed the way its two largest utilities, Dominion Virginia Power and Appalachian Power, were regulated. One of the most significant changes from traditional regulation was the inclusion of bonuses available to the utilities if they took certain actions. With five years of experience and data to review, I felt it was an appropriate time to review the system of adders and see if they were working as intended," said Cuccinelli.

As attorney general, Cuccinelli serves as consumer counsel in electric rate cases before the State Corporation Commission (SCC), representing the interests of customers when utilities seek to change their rates. He is also responsible for conducting studies and making recommendations on consumer issues to the governor and the General Assembly. This study and the recommendations it contains arise out of those statutory duties.

Cuccinelli's major findings include:

The Renewable Portfolio Standard(RPS) adder has not served to advance the environmental concerns that led to its inclusion in the legislation because, by and large, the utilities have not built any new renewable energy facilities to comply with the RPS goals, but instead, have primarily relied on buying Renewable Energy Certificates (RECs) from existing renewable facilities, including hydroelectric plants that have been in service for more than 80 years.

The RPS adder has contributed to increases in customer bills and will likely have a significant future impact by allowing utilities to keep profits that exceed their SCC-approved fair ROE and reducing the chance that customers will be entitled to future rate decreases.

Any benefits of the RPS adder are outstripped by its cost because the adder applies not just to investments in renewables, but rather, applies to a utility's entire rate base. Thus, the

bonus is awarded on most of a utility's assets, including those that have nothing to do with renewables.

The generation adders for constructing new power generation facilities have substantially increased the revenue requirements for the two utilities, i.e., what they charge customers. Specifically, the generation adders for the projects that have already been approved will increase the companies' combined revenue requirements by an estimated \$284 million over the term of the adders.

Although it has not been used to date, the nuclear generation adder, under conservative assumptions, would likely cost customers an **additional** \$1.8 billion over and above actual construction costs and the SCC-approved rate of return. In this scenario, a large industrial customer would pay an additional \$351,000 annually just to pay for the adder, over and above the ordinary cost of the project.

While the generation adders have done more to advance some of the 2007 legislation's goals than the RPS adder, the generation adders have not significantly advanced the key goals of the legislation in light of the substantial costs that they impose.

Five years of data and experience strongly suggest that the RPS and generation adders be eliminated or significantly changed, as they are not meaningfully advancing the goals of protecting customers from price volatility and unnecessary rate increases, promoting reliable electricity, promoting fuel diversity, providing environmental benefits, and stimulating economic development.

While calling for changes to the law, Cuccinelli made clear that the report was not a criticism of the utilities: "While the report does contain recommendations for changes that will lower what customers pay to the utility companies, the report should not be viewed as a criticism of the utilities. Their conduct and decisions as reflected in this report are consistent with what reasonable companies would have done given the statutory framework that was put in place in 2007. They should not be criticized for making beneficial business decisions based on choices provided or incentives offered by the law. The question going forward is, should Virginia leave them with all of those same incentives funded by ratepayers?"

In compiling the report, the attorney general's office relied on utility filings at the SCC, outside experts, and information provided by interested stakeholders who responded to a questionnaire the office prepared. The questionnaires were sent to legislators, environmental groups, independent electric generators, corporate customers of the utilities, and the utilities.

"I want to thank all of those who responded to the questionnaire or otherwise participated in the study. By inviting interested parties on all sides of the issue to participate, we were able to collect more information to make more informed conclusions," Cuccinelli said.

"The review of the statutory adders was undertaken with no preconceived result in mind. The adders were reviewed to see if they were advancing the primary goals of the 2007 legislation: protecting customers from price volatility and unnecessary rate increases, reliability, fuel diversity, environmental benefits, and economic development," stated Cuccinelli.

Cuccinelli concluded by noting, "I hope that this report will encourage serious policy discussions. We now have experience with how the adders have worked in practice, whether they are achieving their intended results, and at what cost. Based on the data, we should be able to improve electric utility ratemaking in Virginia, making it better for citizens, the business community, and the commonwealth as a whole."

[A copy of the report may be found here.](#)

[More about Attorney General Cuccinelli](#)

[Photos of the attorney general](#)

[A copy of this news release may be found on the attorney general's web site here.](#)