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HOUSE BILL NO. 1075

Offered January 14, 2026

A BILL to direct the State Corporation Commission to adhere to certain requirements in the biennial rate review for a Phase I Utility.

Patrons—Rasoul, Clark, Carr, Cole, N.T., Cornett, Franklin, L.V., Griffin, Guzman, Hope, Martinez, McAuliff, McNamara, Morefield, Schmidt, Tran and Willett

Referred to Committee on Labor and Commerce

Be it enacted by the General Assembly of Virginia:

1. § 1. A. That in conducting its 2026 review of the rates, terms, and conditions for the provision of generation and distribution services by a Phase I Utility (the utility), as that term is defined in subdivision A 1 of § 56-585.1 of the Code of Virginia, pursuant to § 56-585.8 of the Code of Virginia the State Corporation Commission (the Commission) shall adhere to the requirements described in this act. To the extent that the provisions of this act conflict with any other provision of law, the provisions of this act shall control.

B. In determining a fair rate of return on common equity pursuant to subsection E of § 56-585.8 of the Code of Virginia, the Commission shall ensure that no increase in such rate of return above the rate of return approved by the Commission in the utility's immediately preceding biennial review proceeding occurs unless the utility demonstrates that such increase is the approach to maintaining reasonable access to capital that results in the lowest cost to customers. The Commission's determinations regarding the utility's cost of capital, including the determination of such rate of return, shall be based on methods widely and customarily used in competitive finance markets to value equity investments. No method that is materially different from such methods, primarily developed for regulatory proceedings, or not demonstrably relied upon for the purpose of investments, including the Utility Risk Premium method and Expected Earnings method, shall be used as a basis for such determinations. No methodology based on biased assumptions or practices shall be used to calculate the utility's cost of capital, including (i) the use of forecasted or projected risk-free interest rates in place of observable current market yields; (ii) the manipulation of beta estimates without empirical justification grounded in utility sector data, or the selection of beta values that systemically exceed long-term, sector-wide market evidence; and (iii) the use of long-term growth assumptions that are economically unfeasible, including long-term growth rates that exceed aggregated economic growth without rigorous justification. The utility shall demonstrate, and the Commission shall consider through quantitative analysis, whether the proposed rate of return on common equity and capital structure is reasonably consistent with achieving a least-cost outcome while maintaining access to capital on reasonable terms, preserving credit quality comparable to companies with comparable risk to the utility, and avoiding unnecessary costs to customers. The utility shall file a quantitative scenario and sensitivity analysis evaluating alternative combinations of return on equity and capital structure and the resulting effects on customer rates and relevant credit quality metrics. The Commission shall make findings of fact regarding compliance with this act and may evaluate the credibility, relevance, and weight offered in support of a proposed method.

C. In determining a fair rate of return on common equity, the Commission shall also consider the affordability of the utility's existing rates for service, the relative levels of regulatory risk faced by the utility, and the most recent rates of return approved for the utility's operations by other regulatory agencies with jurisdiction over the utility's operations outside of the Commonwealth. In assessing the affordability of the utility's existing rates, the Commission shall consider, among other factors, (i) the number of residential customer service disconnections for nonpayment during the last five years and (ii) the percentage of change in the utility's total residential customer per-kilowatt-hour rates during the utility's prior two rate review periods as compared to the percentage of change in the Consumer Price Index, as published by the Bureau of Labor Statistics of the U.S. Department of Labor, during such periods. In assessing the relative level of regulatory risk faced by the utility, the Commission shall consider, among other factors, the securitization of costs and the proportion of the utility's total annual revenues that are projected to be recovered through riders or rate adjustment clauses during the upcoming biennial review period.

D. The Commission shall review the utility's decision to procure capacity through a fixed resource requirement alternative instead of through a capacity market operated by a regional transmission entity. The Commission shall direct the utility to utilize the capacity procurement method that the Commission determines is most likely to result in the lowest reasonable costs for customers. If the Commission directs the utility to change its capacity procurement method, the Commission shall consider applicable Federal Energy Regulatory Commission and regional transmission entity requirements and establish an appropriate transition plan that the Commission determines to be in the best interest of the utility's customers to avoid

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reliability issues and sudden customer cost spikes.

E. The Commission shall prohibit the recovery of any costs incurred by the utility that are incurred in violation of this act or otherwise attributable to (i) the operation of any electric generating unit located outside of the Commonwealth, if the Commission determines such operation to be economically unreasonable or imprudent or (ii) the cost of electricity, including capacity and energy, that the utility has purchased pursuant to an intercompany power agreement at a price that the Commission determines to be above the market price for comparable electricity. The determination of whether to prohibit cost recovery under clause (ii) shall be based on the Commission's calculation of the difference between the per-megawatt-hour cost for electricity purchased under such intercompany power agreement and the price for comparable power available within the regional transmission entity. In determining the price for comparable electricity, the Commission shall consider the per-megawatt-hour levelized cost of energy for baseload generating units operating within the regional transmission entity of which the utility is a member.

F. The Commission may direct the utility to file any supplemental information that the Commission determines is necessary to comply with this act as part of its rate review proceeding.

§ 2. A. To ensure the lowest reasonable costs for customers, the Commission shall conduct a review of the terms of service and rates for electric transmission by the utility. Such review shall (i) identify the primary drivers of transmission costs in the utility's service territory; (ii) determine whether the utility and its parent company maintain systemic and robust evaluation processes of grid-enhancing technologies and other reasonable alternatives to reduce or defer the costs of local and regional transmission projects, including competitive procurement processes; (iii) examine the current cost allocation methodologies for transmission costs used by the utility and the regional transmission entity of which the utility is a member, including an examination of concerns raised by regulatory bodies and consumer protection agencies regarding such methodologies and an evaluation of the impacts of such methodologies on costs to customers; and (iv) a description of the Commission's ability to oversee, approve, or deny transmission projects based on criteria including cost and need, and its coordination with the planning and authority of the regional transmission entity of which the utility is a member. The Commission shall provide opportunity for public comment as part of such review. By December 1, 2026, the Commission shall provide a report to the Governor and the Commission on Electric Utility Regulation summarizing its review and providing any recommendations for actions that may lower the costs of transmission paid by the utility's customers.

B. To ensure the lowest reasonable costs for customers, the Commission shall conduct a review of the utility's efforts to improve system efficiency, resilience, and reliability to address rising costs of severe weather events. Such review shall (i) evaluate the increased risk of severe weather events; (ii) identify best practices employed by electric utilities operating in geographically similar regions; (iii) identify options for the expansion of energy efficiency programs administered by the utility to enhance system resilience; and (iv) determine whether additional resources from the Commonwealth are necessary to offset reductions in federal funding, financing, or tax incentives for electric grid resilience investments. By September 1, 2026, the Commission shall require the utility to file a plan for maximizing efficiency, grid resilience, and reliability at the lowest reasonable cost to mitigate costs associated with severe weather events. Such plan shall identify severe weather risks impacting the utility's service territory and opportunities to leverage available federal and state funding, financing, and incentives for electric grid resilience investments. By September 1, 2027, the Commission shall provide a report to the Governor and the Commission on Electric Utility Regulation summarizing its review and providing any recommendations for actions by the utility, the Commission, and the General Assembly to reduce the costs of severe weather events.

C. The Commission may provide the reports required by this act as part of an annual report prepared by the Commission pursuant to § 56-596 of the Code of Virginia.

2. That the State Corporation Commission (the Commission) shall select three independent experts with demonstrated experience in utility finance and regulatory economics as candidates to conduct a study on behalf of the Office of the Attorney General (the Office) reviewing the methods used to determine the cost of equity capital for investor-owned utilities. The Office shall select one independent expert selected by the Commission to conduct such study. Such study shall evaluate recent methods, assumptions, and analytical practices employed by expert witnesses retained by such utilities and witnesses in proceedings before the Commission and shall include a review of relevant academic, practitioner, and regulatory literature. The Office shall develop specific recommendations for the Commission and the General Assembly to improve regulatory practices governing the determination of such utilities' cost of equity capital with the objectives of protecting customer affordability and ensuring compliance with all applicable legal requirements, including a recommendation that any authorized rate of return on equity shall reflect the market-based cost of capital, be sufficient to attract capital and maintain financial integrity, and not be excessive or detached from prevailing market conditions. The Office shall provide opportunity for public comment and conduct at least one public workshop as part of such study. The Office shall submit a written report presenting its findings and recommendations to the Commission and the Commission on Electric Utility Regulation by November 1, 2026.