

May 15, 2025

To: Chair Watts and Members of the Nevada Assembly Growth and Infrastructure Committee

From: Jackie Spicer, Nevada Environmental Justice Coalition

RE: Opposition to SB 417 (Alternative Rate-Making for Gas Utilities)

The Nevada Environmental Justice Coalition (NEJC) strongly opposes Senate Bill 417 (SB 417), which proposes alternative rate-making mechanisms for natural gas utilities. While the bill aims to modernize utility regulation, it fails to include necessary safeguards to protect ratepayers, ensure transparency, and align with Nevada's clean energy goals.

During a time when our communities are struggling to afford their home energy bills and overall cost of living, it does not make sense for us to allow our investor-owned gas utility to lock in future rate hikes over several years, shifting the burden of unforeseen cost increases from utilities to customers.

In 2023, Nevada passed SB 281, requiring gas utilities to file Integrated Resource Plans (IRPs) by October 1, 2025.¹ These IRPs will provide the first comprehensive assessment of gas utility investments, demand forecasts, and efficiency strategies. SB 417 undermines this vital process by allowing utilities to adopt alternative rate-making before the IRP process begins. This risks locking in costly, outdated investments that could become stranded assets as Nevada transitions to cleaner energy.

Alternative rate-making mechanisms include performance-based rates, formula-based rates, and multi-year rate plans.² These differ from the traditional regulatory model by allowing utilities to adjust rates more easily and with less oversight. Lessons from other states, such as Maryland and Arizona, highlight the potential negative consequences of implementing these policies without adequate safeguards.^{3 4} While the goal is to modernize utility regulation, SB 417 raises major concerns about transparency, accountability, and affordability for consumers.

Performance-based rates (PBR) have the potential to strongly benefit ratepayers and achieve renewable energy goals if done in a manner that includes equity considerations. Without these considerations, PBRs could allow utilities to move the goalposts on what targets are to be accepted by the PUC through lack of transparency.⁵ Utilities can then request kickbacks from regulators for doing what the PUC can already instruct utilities to do.⁶

¹ (Nevada Legislature, 2023)

² (Lowry & Woolf, 2016, p. 48)

³ (Maryland Office of People's Counsel, 2025)

⁴ (Dana, 2024)

⁵ (Lowry & Woolf, 2016, p. 48-50)

⁶ (Eisen & Payne, 2023, p.1094-1096)

Formula-based rates (FBR) represent a concerning shift in utility regulation that disproportionately burdens consumers while benefiting utility companies. Under this system, regulators approve an initial rate formula that automatically determines future rate increases without examining the specific costs utilities seek to recover from customers.⁷ This approach essentially allows utilities to set their own rates based on self-created formulas tied to costs and revenue targets, creating numerous risks for ratepayers. The FBR system places all financial risk on customers while offering utilities guaranteed returns for shareholders, creating what experts describe as "poor or distorted incentives for cost efficiency."⁸ Significant concerns include complete lack of transparency in rate-setting, heightened potential for overcharging (as utilities can pass through excess costs rather than just profits), and reduced accountability that leads to inefficient operations.⁹ The system's automatic adjustments create unpredictable bill increases for consumers and fail to provide adequate dispute mechanisms, particularly harming low-income households.¹⁰ As research shows, poorly structured FBRs essentially create a "cost-plus" environment where utilities have little motivation to control expenses or improve performance, since they can simply pass additional costs directly to ratepayers.¹¹ This flawed mechanism prioritizes utility profits over consumer protection and fair pricing.

Multi-year rate plans (MRPs) represent a fundamental shift in utility regulation that disadvantages consumers while protecting utility profits. Under this system, regulators approve rate structures spanning several years based on projected utility costs, locking customers into predetermined rate increases regardless of actual market conditions or utility performance.¹² This approach systematically transfers financial risk from utilities to ratepayers, as consumers bear the burden of cost overruns while utilities enjoy guaranteed revenue streams. The MRP structure actually leads to more frequent rate hikes than traditional regulation, contrary to claims of stability.¹³ A critical flaw in this system is its vulnerability to regulatory capture, where under-resourced consumer advocates struggle to counter sophisticated utility proposals, creating an uneven playing field.¹⁴ Perhaps most troubling is how MRPs can create windfall profits for utilities, as their revenues may substantially exceed actual costs for extended periods without any mechanism to return these excess profits to ratepayers.¹⁵ This system prioritizes utility revenue certainty over fair pricing and consumer protection, demonstrating how MRPs institutionalize an imbalance favoring corporate interests at the public's expense.

The PUCN estimates that implementing Alternative Ratemaking would cost \$537,638 over the biennium to hire one unclassified Commission Policy Adviser, a Regulatory Economist, and a Regulatory Engineer. At least six days of workshops and hearing would be required to develop and adopt necessary regulation. Additionally, the Attorney General's Office determined the

⁷ (Conroy, 2025)

⁸ (Costello, 2010, p. 19)

⁹ (Costello, 2010, p. 19)

¹⁰ (Costello, 2010, p. 12)

¹¹ (Costello, 2010, p. 16)

¹² (Conroy, 2025)

¹³ (Lowry & Woolf, 2016, p. 43)

¹⁴ (Lowry & Woolf, 2016, p. 42)

¹⁵ (Lowry & Woolf, 2016, p. 2)

Bureau of Consumer Protection would need two new positions to support rate-setting adjustments, costing the state another \$755,750.¹⁶ These costs would fall on taxpayers, an added burden many Nevadans cannot afford.

In Maryland, alternative rate-making policies have led to significant increases in utility rates, particularly due to the adoption of Multi-Year Rate Plans by the Public Service Commission in 2020. According to a March 2025 report from the Maryland Office of People's Counsel (OPC), most utility customers in the state have experienced steep rate hikes over the past 10 to 15 years.¹⁷ For gas utilities specifically, the data from 2010 to 2025 shows substantial increases: Baltimore Gas and Electric (BGE) rates nearly tripled from \$0.26 to \$0.90 per therm (a 246% increase), Columbia Gas rose from \$0.30 to \$1.00 per therm (a 233% increase), and Washington Gas saw a more modest rise from \$0.39 to \$0.46 per therm (an 18% increase). These rising rates are largely attributed to the structure of Multi-Year Rate Plans, which accelerate cost recovery by incentivizing utility spending on capital infrastructure. This, in turn, shifts financial risk from utility investors to ratepayers, allowing utilities to more easily recoup overspending. As a result, utilities face little pressure to manage costs prudently. These policies have disproportionately raised delivery charges and reduced the financial risk for utilities, placing a greater burden on consumers.

Structurally, investor-owned utilities do not operate in the best interest of ratepayers. When Southwest Gas's CEO, Karen Haller, received an \$8 million salary last year, we know exactly where these profits will go.¹⁸ Nevadans deserve genuine transparency and accountability, as well as protection from having to bear all the financial risks of alternative ratepaying. Allowing gas utilities to use alternative ratemaking will only bring us further away from guaranteeing affordable, reliable, and clean energy for all Nevadans.

SB417 is not innovation, it opens the door for exploitation. We urge you to reject SB417 to protect hard working Nevadans, not shareholder profits.

Respectfully,

Jackie Spicer
Coalition Coordinator
Nevada Environmental Justice Coalition

¹⁶ (Nevada Legislature, 2025)

¹⁷ (Maryland Office of People's Counsel, 2025)

¹⁸ (Smyth, 2025)

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