Testimony in support of S2777: PUC—Profit Margin

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To Chair Britto and the honorable Members of the Senate Commerce Committee:

We pay an outrageous amount of money for electricity and gas, because

- Rhode Island Energy keeps us locked into "natural" gas and an expensive grid,
- pays their investors too much,
- and the regulators let them get away with it.

There are two solutions:

1. We urgently need to strengthen and re-align PUC, DPUC and OER and give them sufficient funding, resources and expertise. As a result of the current resource constraints, they mostly rubber-stamp Rhode Island Energy's proposals instead of providing independent modeling, often on cost of the rate payers. To make things worse, their independence is undermined by a "revolving door" where Rhode Island Energy staff get hired as regulators, or staff from the regulating offices move to Rhode Island Energy.

2. We need to reform the utility process: Other states—and our own Rhode Island Utility Reform studies—show us what works better and costs less:

   - Lower payments to investors to reflect Rhode Island Energy's low business risk.
   - Change Rhode Island Energy's business model. Move earnings away from avoidable capital investments for expensive grid infrastructure, to earnings for meeting goals aligned with
     - affordability, decarbonization, reliability, and
     - broad implementation of modern smart technologies and distributed resources that reduce the size of the costly grid.
   - Stop adding "natural" gas infrastructure that will become obsolete soon.

For in-depth information about Utility Reform, please refer to Appendix 1.

I support S2777, because it is part of Utility Reform by limiting the utility's profit margin In order to reflect their low business risk.

Please bring the bill to a vote in 2026.

Thank you very much for considering my input, and thank you to Senator Gu for introducing this important bill.

Dr. Hans Scholl Apr 6, 2026

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Appendix 1: The Case for Utility Reform in Rhode Island

We pay an outrageous amount of money for electricity and gas, because

- Rhode Island Energy keeps us locked into "natural" gas and an expensive grid,
- pays their investors too much,
- and the regulators let them get away with it.

Background

We need Utility Reform: to enable Rhode Island Energy to support—not oppose and obstruct—the transition to renewable energy, to modernize the electric grid and to move out of gas. This will lower the electric rates for Rhode Islanders—which are among the highest rates in the country—, boost our economy and create jobs.

We already have done a lot of the footwork, have studied what to do. We now need to implement the Utility Reform, as recommended in these studies. We don't need to reinvent the wheel, but follow our own recommendations and the lead of other states that had successful reform.

There are three areas that need change:

1. **The traditional utility business model.**

   Currently, Rhode Island Energy can only earn a profit from maintaining and investing into the wires (grid) and pipes that deliver electricity and gas. A smaller electric grid or fewer "natural" gas pipes mean less profit, which is why Rhode Island Energy will continue to fight against technologies that result in a smaller grid or in fewer "natural" gas pipes: solar, batteries, heat pumps and electric appliances, local grids, local electricity generation, distributed energy resources, virtual power plants, and peak-based electric rates.

   To lower our utility bills, we need to reform the statute to reward Rhode Island Energy for supporting these technologies and keeping their investment into grid and "natural" gas infrastructure under control, by using tools like Performance-Based Pay and Integrated Resource Planning.

   For a more detailed description of the tools and solutions for Utility Reform and cost saving refer to Appendix 2 and Appendix 3.

2. **Investor returns**

   Rhode Island Energy is an investor-owned utility, and paying their investors competes with keeping rates low for their customers. Though the investment risk of Rhode Island Energy is low, comparable to US Treasury Bonds, Rhode Island Energy's returns to their investors are high. Lowering this return to a level that is commensurate with the investors' low risk will lower the rates for all of us.

3. **We need to end the capture of the legislature and the regulators by Rhode Island Energy**

   Rhode Island Energy outspends all other groups in lobbying. They consistently oppose moving away from "natural" gas to renewable energy.

Disinformation by Rhode Island Energy is not addressed by the regulators (Public Utility Commission, Division of Public Utilities and Carriers, Office of Energy Resources), as in 2025, where the falsehood of "renewables increasing the electric bills" effectively shut down related bills, leaving them "held for further study". To make things worse, while Rhode Island Energy was setting the tone in many of their testimonies, opposing Utility Reform-bills and bills that would have accelerated the renewables transition, their misleading arguments were often repeated and amplified in the regulators' testimonies.

The regulators who are tasked with exercising effective oversight over Rhode Island Energy are under-staffed and under-paid. As a result of these resource constraints, they mostly rubber-stamp Rhode Island Energy's proposals instead of providing independent modeling, often on cost of the rate payers. To make things worse, independence is undermined by a "revolving door" where Rhode Island Energy staff get hired as regulators, or staff from the regulating offices move to Rhode Island Energy.

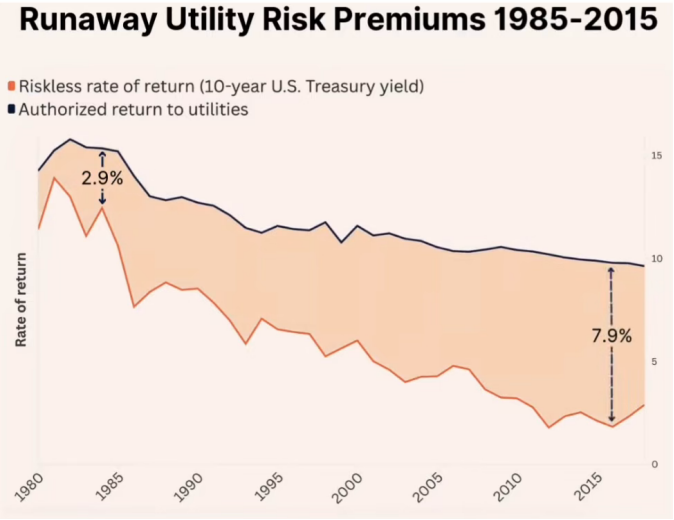
Unless we increase staffing and budget to attract and retain more talent, and also shut the revolving door, the Utility will continue to "bury" the regulators on most every issue, simply by overwhelming them with outsized presence, backed by large resources (ultimately those of the Fossil Fuel Industry).

The public can not easily participate and intervene, and there is little transparency of the interactions between Rhode Island Energy and regulators. Planning, models and assumptions need to be public and auditable.

Our legislators, regulators and the Governor can be more daring in facilitating change: There is no need for a concern about losing voters by tightening control over Rhode Island Energy: The vast majority of Americans (75%) agree that we are in a "cost of living crisis," and utility bills are among their most stressful expenses. When asked to name who or what they blame for the increased price of electric bills, less than 3% of all respondents mentioned clean energy or climate policies. Who *do* they blame? **The most cited culprit by far was their utility company**.[1]

Supporting data

- Short explainer video about utility rates of return and runaway risk premiums[2]:



[1] Marshall, John; Lu, Jessica. 2025. "The opportunity on clean energy and affordability is bigger than you think. What Americans really believe about clean energy costs and clean power." *Potential Energy.*

[2] Farrell, John. "Short explainer video about utility rates of return". Video. *Energy Democracy Initiative, Institute for local Self-Reliance.*

- Docket No. 4600 progress report - Public Utility, 2017[3]
- Energy 2035, Rhode Island State Energy Plan - Rhode Island Division of Planning, 2015[4]
- Rhode Island Power Sector Transformation[5]
- RMI virtual power plant and distributed energy resource slide deck[6]
- RMI Virtual Power Plant Flipbook[7].

Disinformation

The biggest obstacle against Utility Reform and lower rates in Rhode Island is Rhode Island Energy. They are part of the Fossil Fuel Industry and have fully captured the legislature and their regulators. Between 2018 and 2025, Rhode Island Energy and their predecessor, National Grid spent over 13 times as much on lobbying as the top-spending environmental group, Conservation Law Foundation[8], blocking meaningful bills and action, and their disinformation deceives with falsehoods like “renewables are expensive and will increase electric rates”.

Rhode Island Energy and the Public Utility Commission, Division of Public Utilities and Carriers and Office of Energy Resources were stakeholders and often authors in many of the studies that strongly recommended Utility Reform and moving away from "natural" gas into renewable energy (including Docket No. 4600, and Energy 2035). Nevertheless, Rhode Island Energy and the Public Utility Commission and Division of Public Utilities and Carriers have refused to follow their own recommendations from these studies and consistently testify in opposition to bills that would require Utility Reform and transitioning towards renewable energy.

In addition, Rhode Island Energy has disinformed that renewables would increase the electric bills for Rhode Islanders, with the result that bills related to Utility Reform[9] and renewables stalled in the 2025 legislature. This is the Rhode Island version of the nationwide disinformation of the oil and gas industry, aiming at delaying renewable energy in favor of continued burning of fossil fuels.

The truth is that Utility Reform and transitioning towards renewables will lower the electric bills, create jobs, boost the Rhode Island economy, and let us comply with the Act on Climate mandates.

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[3] Raab Associates. 2017. “Docket 4600: Stakeholder Working Group Process. Report to the Rhode Island Public Utilities Commission”. *Raab Associates and RI Public Utility Commission* (Apr 5).

[4] RI Division of Planning. 2015. “Energy 2035. Rhode Island State Energy Plan.” *RI Division of Planning* (Oct 5).

[5] State of Rhode Island Interagency Report. 2017. “Rhode Island Power Sector Transformation. Phase One Report to Governor Gina M. Raimondo.”*Rhode Island Division of Public Utilities and Carriers, Office of Energy Resources, Public Utilities Commission* (Nov).

[6] McEvoy, Avery. 2023. “Virtual Power Plants: Aggregating Distributed Energy Resources to Provide Flexibility, Reliability, and Emissions Reductions to the Grid.” *RMI* (Feb 8).

[7] Brehm, Kevin, et al. “Virtual Power Plant Flipbook. How utilities and their customers are already benefiting from VPPs and insights for future implementation.” *RMI*.

[8] Culhane, Trevor, Fama Seck, August DeVore, Chloe Daniel, Evan Tao, Reina Jo, and J. Timmons Roberts. 2026. “Climate Obstruction in the Rhode Island Legislature.” Policy briefing: *The Climate and Development Lab, Brown University*. (Jan).

[9] For a listing of these bills, refer to Appendix 3

Appendix 2: Performance-Based Pay and Integrated Resource Planning

Performance-Based Pay

Performance-Based Pay (also called pay-for-performance or performance-based regulation) changes how an electric utility earns profits.

Instead of earning more money by **spending more on grid infrastructure**, the utility earns additional revenue by **meeting clearly defined performance goals** that benefit customers and the state.

Under this approach, regulators set **measurable targets**—such as reducing peak demand, supporting local renewable energy, improving reliability, or lowering long-term system costs—and the **utility's earnings rise or fall based on how well it delivers those outcomes**.

Rhode Island's Current Utility Incentive Model

Today, Rhode Island's electric utility operates under a **cost-of-service, investment-driven model**:

- Utility profits are largely a fixed return on capital investments (poles, wires, substations).
- The **bigger and more expensive the grid**, the more profit the utility earns.
- Peak demand determines grid size. Even a few hours of high demand each year drive billions in long-term infrastructure costs.
- Technologies that **reduce peak demand** can shrink the grid need, but **also shrink utility profits**.

This creates a **structural conflict**: what's good for rate payers (lower peak demand, smaller grid, local clean energy) is often bad for the utility's bottom line.

As a result, Rhode Islanders pay higher bills than necessary.

How Performance-Based Pay Works Differently

Performance-Based Pay **realigns incentives** by shifting part of the utility's earnings away from infrastructure spending and toward outcomes such as:

- Supporting renewable energy and distributed generation.
- Reducing peak electricity demand.
- Expanding demand response, time-based rates, and smart technologies.
- Improving system efficiency and resilience.
- Lowering long-term system costs.

Instead of opposing solutions that reduce grid size, the utility is **financially motivated to enable them.**

Key Benefits of Performance-Based Pay for Rhode Island Ratepayers

Lower Electric Bills Over Time

Performance-based pay rewards the utility for **avoiding unnecessary grid expansion**, which lowers transmission, distribution, and capacity costs that show up in monthly bills.

Smaller, Smarter Grid

As documented in Rhode Island's Power Sector Transformation studies, a small number of peak hours drives a disproportionate share of system costs. Building the grid to meet these peaks leads to:

- Underutilized infrastructure.
- Rising transmission and distribution costs.
- Higher electric bills for all customers.

Local solar, batteries, and Demand Response reduce the need for oversized infrastructure and unnecessary grid investments. Performance incentives encourage the utility to **use these lower-cost solutions first**, instead of defaulting to expensive construction projects.

Faster Clean Energy and Climate Progress

Rhode Island law requires emissions reductions and a transition away from fossil fuels. Performance-Based Pay aligns the utility's financial interests with these legal mandates, rather than forcing regulators and advocates to fight the utility case by case.

More Accountability and Transparency

Clear performance metrics make it easier for regulators and the public to evaluate whether the utility is actually delivering value—especially important in a system where regulators are resource-constrained and face risks of regulatory capture

Integrated Resource Planning

Integrated Resource Planning (IRP) is a structured planning process used by regulators and utilities to determine **the lowest-cost, lowest-risk mix of energy resources** needed to reliably meet electricity demand over the long term—typically 10 to 20 years. It is a **practical tool to protect Rhode Island ratepayers**, modernize the grid, and meet climate goals at the lowest possible cost.

Unlike traditional planning, which focuses mainly on building power plants and grid infrastructure, Integrated Resource Planning evaluates **all viable options**, including:

- Energy efficiency.
- Demand response.
- Distributed Energy Resources.
- Grid modernization and non-wires alternatives.
- Utility-scale renewables and storage.
- Transmission and distribution investments.

Rhode Island has already laid much of the groundwork through **Docket 4600**, **Energy 2035**, and the **Power Sector Transformation Initiative**, though very little of the studies' recommendations have been implemented.

A robust Integrated Resource Planning process typically includes

Forecasting future needs

The utility projects electricity demand under multiple scenarios (economic growth, electrification of heating and transportation, efficiency gains).

Identifying all feasible resources

This includes supply-side resources (generation, transmission) and demand-side resources (efficiency, demand response, storage).

Comparing portfolios, not individual projects

Resources are evaluated as portfolios that work together to meet demand reliably and align with public policy.

Using benefit-cost analysis

Costs and benefits are assessed consistently, including system costs, ratepayer impacts, emissions, resilience, and risk.

Stress-testing for uncertainty

Plans are tested against fuel price volatility, climate impacts, technology costs, and policy changes, and the regulators approve the plan that best meets reliability requirements while minimizing long-term customer costs and risk.

Key Benefits of Integrated Resource Planning for Rhode Island Ratepayers

Lower long-term electric bills

By prioritizing efficiency, demand response, and non-wires alternatives, Integrated Resource Planning reduces unnecessary grid spending that customers must pay off for decades.

Better use of existing infrastructure

Integrated Resource Planning focuses on improving system efficiency—meeting needs with smarter operation rather than bigger assets.

Reduced exposure to fuel price volatility

A diversified resource portfolio with more renewables and flexible demand protects customers from "natural" gas price swings.

More transparent and accountable planning

Integrated Resource Planning creates a public, regulator-led process where assumptions, tradeoffs, and risks are openly evaluated.

Stronger alignment with state policy
Climate goals, equity considerations, and economic development priorities are embedded directly into planning decisions.

Appendix 3: Technologies and Tools for a Modern Grid

Virtual Power Plants[10, 11] and Distributed Energy Resources

Virtual Power Plants enable a smaller, more efficiently utilized grid, lowering long-term capital spending and reducing ratepayer costs.

A Virtual Power Plant (VPP) is a system that digitally aggregates many Distributed Energy Resources (DERs)—such as rooftop solar, batteries, smart thermostats, electric vehicles, appliances, and flexible loads—and coordinates them to operate like a single power plant.

Key Benefits of Virtual Power Plants

Reduction of Grid-Size and Grid Investment

- Peak demand determines grid size: transmission and distribution systems are built to meet the highest few hours of demand of the year. Virtual Power Plants reduce the required grid size through peak shaving, by reducing their power consumption, or by supplying power, lowering the system peak during high-demand hours.
- By reducing local and system-wide peaks, Virtual Power Plants can delay or eliminate the need for new substations, transformers, transmission lines, and distribution upgrades.

Lower System Costs and Customer Bills

- Coordinated Distributed Energy Resources reduce wholesale energy, capacity, and ancillary service costs.
- Savings benefit all customers, not just Distributed Energy Resource owners.

Improved Reliability and Resilience

- Distributed Energy Resources are geographically spread, reducing single-point failures.
- Virtual Power Plants can respond in seconds to contingencies, improving frequency and voltage support.
- During power outages, some Virtual Power Plant resources (e.g., house and car batteries) can support critical loads and local “micro” grids.

Faster and Cheaper than Centralized Power Plants

- Compared to large conventional power plants, distributed Energy Resources can be deployed incrementally and quickly.
- Software-based coordination scales faster than permitting and constructing large plants.
- Capital risk is lower.

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[10] McEvoy, Avery. 2023. “Virtual Power Plants: Aggregating Distributed Energy Resources to Provide Flexibility, Reliability, and Emissions Reductions to the Grid.” *RMI* (Feb 8).

[11] Brehm, Kevin, et al. “Virtual Power Plant Flipbook. How utilities and their customers are already benefiting from VPPs and insights for future implementation.” *RMI.*

Cleaner Grid and Emissions Reductions

- Virtual Power Plants prioritize clean resources..
- They reduce reliance on fossil fuel peaker plants, which are often the most expensive and polluting generators.
- Virtual Power Plants support high penetrations of renewable energy without compromising reliability.

Better Use of Existing Assets

- Increases utilization of assets that already exist (solar, batteries, EVs, smart devices).
- Converts passive loads into active grid resources.

Role in Utility Reform

- Traditional utility business models reward capital investment in wires and substations. Virtual Power Plants shift value toward performance, coordination, and outcomes—aligning with:
- performance-based regulation,
- distributed energy integration,
- affordability and equity goals,
- climate mandates.
- They are a core building block of a modern, right-sized, and cost-controlled grid.

Demand Response

What Is Demand Response?

Demand Response is the deliberate, temporary reduction, shifting, or modulation of electricity demand by customers in response to grid conditions or price signals. It turns electricity consumers into active grid resources, reducing demand instead of increasing supply when the grid is stressed.

How It Works

When grid stress arises (extreme weather, congestion, high prices), a signal is sent to customers or devices. Loads respond by reducing consumption, shifting usage, or cycling equipment. Reductions are measured against a baseline and compensated.

Main Types

Voluntary: Price-based programs (time-of-use rates, critical peak pricing) that encourage customers to shift usage off-peak. Scales broadly but response is less predictable.

Dispatchable: Customers agree to reduce load when called upon (e.g., ISO-NE capacity programs, utility curtailment contracts). Highly reliable and measurable but requires program administration.

Automated: Smart thermostats, EV chargers, batteries respond automatically. Fast, precise, scalable through aggregation—enables Virtual Power Plants.

Grid Benefits

Demand Response reduces grid costs by lowering peak demand (smaller required capacity), reducing capacity market payments, avoiding infrastructure investments, and preventing price spikes. Because the top 5–10% of hours drive disproportionate costs, even modest participation delivers outsized savings.

Role in Utility Reform

Demand Response challenges traditional utility incentives to grow peak demand and infrastructure. It supports performance-based regulation, non-wires alternatives, distributed system planning, and Virtual Power Plants—making the grid cheaper, cleaner, and more flexible.

In short, Demand Response makes the grid cheaper, cleaner, and more flexible.