The Economics of Electric Utility Mergers: Considerations for the Proposed NextEra–Dominion Merger

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Claims to evaluate

Virginia's standard asks whether adequate service at just and reasonable rates would be "impaired or jeopardized."

The companies' claimed customer benefits are central to their case that this standard is met — and warrant careful evaluation.

Category of claims	Stated customer impact
Short-term; Quantified	"$2.25 billion in bill credits spread over two years post-close" (∼79% to Virginia)
Long-term; Not quantified	Customers will "benefit over time from [the] enhanced scale in operations, procurement, construction and financing"

Sources: joint announcement (May 18, 2026); allocation per the Joint Petition (July 15, 2026).

1. Durable customer benefits require real efficiency gains

Proposed bill credits are fixed in both size and duration. Any durable gains require genuine reductions in the cost of serving customers.

Empirical evidence gives little basis for expecting such gains from scale alone.

- Economies of scale are concentrated at smaller sizes (Christensen and Greene 1976; Kwoka 2005)
- Evidence from the merger wave during restructuring found little evidence of improved cost performance (Kwoka and Pollitt 2010)

Evidence of operating gains points to operational change — not parent-level ownership change alone.

- No significant efficiency gains when only a plant's parent company changes (Demirer and Karaduman 2026)

What will be done differently in the utility's operations to generate real efficiency gains?

2. Efficiency gains reach customers largely through the ratemaking process

The costs the merger could plausibly reduce — non-fuel operating costs, corporate overhead, the cost of capital — are precisely the components that reach customers through base rates and the authorized return.

The distinction between production cost savings and retail price effects is important.

- Generation efficiency improved after restructuring (Fabrizio et al. 2007)
- But retail prices did not correspondingly decline — rate changes were driven largely by fuel costs (Borenstein and Bushnell 2015); regulated T&D capital rose, raising delivery charges (Cicala 2025)

The financing benefit claim is plausible but its magnitude is not established. If the financing benefit is real, the companies should be able to quantify it in advance, and provide the underlying assumptions so that their estimate can be scrutinized.

How would claimed savings actually reach customer bills?

3. Corporate diversification cuts both ways

Potential benefit: Diversified cash flows can support a stronger consolidated balance sheet and potentially lower financing costs.

Potential risk: A corporate family spanning regulated and competitive businesses creates opportunities for costs and risks to migrate toward the regulated utility.

Why this matters for NextEra-Dominion: Would bring Virginia's largest electric utility into the same corporate family as NextEra's competitive energy business, which operates across the country.

Will affiliate rules and proposed commitments require sufficiently detailed reporting to identify inappropriate cost shifting onto Virginia customers?

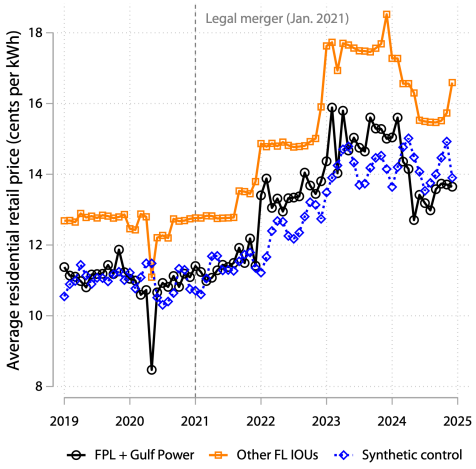
4. Evidence-based oversight is critical — and is strongest when mechanisms, metrics, and benchmarks are set in advance

Where the proposal stands: Beyond the two-year bill credits, the claimed longer-run benefits are directional, not quantified. There is therefore no stated quantitative standard against which those benefits could later be assessed.

Data are necessary but not sufficient: Without a pre-specified benchmark and evaluation protocol, key choices are left to after-the-fact discretion: What counts as a merger benefit? Which comparison to use? Over what time period?

The practical path is to tie each claimed benefit, in advance, to a specific mechanism, measurable metric, and credible benchmark.

4. Why benchmarks are important



Source: Form EIA-861M; Author calculations.
Note: FPL acquired Gulf Power in 2019; Gulf legally merged into FPL in Jan. 2021

- Critics have pointed to a ∼30% rise in FL customer bills following the FPL-Gulf Power consolidation
- My preliminary analysis compared the price history of the merged entity to two benchmarks: other Florida IOUs and a synthetic control group (Abadie and Gardeazabal 2003; Abadie 2021)
- Average residential retail prices did increase in raw terms — but there was no clear post-merger divergence from either benchmark
- **Lesson:** Before-and-after changes alone do not establish merger effects. Claims of harm and benefit alike should be evaluated against credible benchmarks wherever possible.

Conclusion

1. Durable customer benefits require real efficiency gains
   $\longrightarrow$ **What, specifically, would change in the utility's operations under this merger?**
2. Efficiency gains reach customers largely through the ratemaking process
   $\longrightarrow$ **How would claimed savings actually reach customer bills?**
3. Diversification cuts both ways
   $\longrightarrow$ **Will reporting on transactions and cost allocations be detailed enough to tell?**
4. Evidence-based oversight is critical — and is strongest when mechanisms, metrics, and benchmarks are set in advance.
   $\longrightarrow$ **What measurable benefits should customers expect, and how would we verify them?**

Appendix: references (1/2)

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Appendix: references (2/2)

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