Washington WATCH

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Electric Vehicles: Ride of the Future or Road to Ruin?

Policymakers are currently grappling with a number of issues as the debate over electric vehicles (EVs) accelerates. Despite accounting for a mere two percent of vehicles sold worldwide in 2017, EVs have occupied an outsized position in the national conversation at the intersection of environmental and transportation policy as lawmakers consider how to address climate change concerns and reduce carbon emissions. Not only is it unclear if these vehicles can actually produce significant environmental benefits, but in seeking to expand use of EVs, a patchwork of skewed tax and regulatory incentives have cropped up that could harm competition in the refueling market.

Specifically, states are seeing public utility companies angling to install EV charging infrastructure at a cost of tens of millions, or even hundreds of millions of dollars. This may seem like a positive development, but there's a catch: utilities are proposing that they be given authority to impose the costs of the infrastructure projects on all of their "ratepayers," also known as everyday Americans.

How Does this Work?

Many states effectively grant utility companies a monopoly over the provision of electricity in a particular marketplace. In exchange for the loss of market freedom, utility companies are guaranteed a rate of return from ratepayers; in many instances, utility companies can even recover their investment costs if those costs are included in the rate base. So, when utility companies seek approval to enter the EV charging space, they generally request that their capital investments be treated as part of the utility rate base that all of their customers must pay. This puts the cost burden squarely on ratepayers – the vast majority of whom do not drive electric vehicles. And, of course, ratepayers include businesses that are trying to sell gasoline and diesel fuel to consumers.

For those thinking this must be a California problem, that is partially correct. California recently approved an investment of more than $730 million in charging infrastructure, the cost of which will be borne by…that's right, ratepayers. In fact, Southern California Edison, one of the utility companies involved in the project, estimated that customers would see an increased monthly electric bill due to higher utility rates. The other two companies involved in the project did not have estimates on rate increases.

Importantly, however, this issue is not limited to California; these EV infrastructure projects are being proposed and approved across the country. Since January 2018, utilities in over 30 states, recognizing an opportunity to expand their offerings with guarantees that it will be paid for by existing customers, have either received approval for or proposed programs to increase EV adoption within their service territories. Most recently, in New York, the governor announced that a public utility company in the state would invest $40 million in charging infrastructure, an investment that could grow to $250 million.

What's the Problem for Fuel Retailers?

The single greatest concern that fuel retailers should have with regard to utility companies entering the refueling market is the severe, anti-competitive factor it brings to the marketplace. Today's fuel market is one of the most transparent and competitive in the world. In order to gain market share, retailers must listen closely and respond quickly to consumers' refueling needs. This fact means that retailers will continue to invest in the equipment and infrastructure needed to provide customers with the fuels they want, be it traditional gasoline and diesel, biofuels, compressed natural gas, or electricity, presuming a return on investment is possible. The industry will continue meeting consumer needs as increased us of EVs leads to increased consumer demand for electric refueling.

However, when utility companies enter the refueling market supported by what amounts to a taxpayer-funded, state-approved subsidy, they undercut the market. The private sector cannot compete with zero market entry costs. If retailers cannot compete, their ability to invest in the alternative fuel marketplace will be limited. This will result in fewer refueling options for American consumers and reduced marketplace competition, which will increase consumer fuel costs.

Furthermore, fuel marketers are significant ratepayers – utilities are retailers' third largest operating expense – so in paying their own utility bills, retailers would also be funding their competitors and paying for their former customers to refuel their vehicles with "free" electricity.

How Do We Move Forward?

The unequal playing field that is quietly being established in the EV space is raising serious concerns. It creates a troubling competitive imbalance for fuel retailers and will hurt American consumers. Today's fuel retailers already have the incentives and experience to provide consumers with refueling options for EVs in an open, transparent, and competitive marketplace. Consumers will be better off if all players compete fairly within the existing market structure, which prioritizes consumers' wants, needs, and costs.

But that is not the direction this is going. As more states approve utilities' plans to make everyone pay for EV refueling, we risk moving a vibrant, competitive private industry into a government operated system for vehicle refueling. The chances that that structure results in more convenience, efficiency, and lower costs for consumers is . . . well, zero.

Of course, it is up to the fuel marketing industry to tell that story. If we don't, no one will. ★

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