Discussion of Performance-Based Elements of the Virginia Electric Utility Ratemaking/ Regulatory Construct

Performance-Based Regulation (“PBR”) DOE Stakeholder Group

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Presentation by Dominion Energy Virginia

Backdrop

- 2007 Virginia Electric Utility Regulation Act (Va. Code § 56-585.1 et seq.)
- Return to ***modified*** cost-of-service regulation for electric generation, transmission, and distribution services
- Provided incentives for infrastructure investment and efficiency in utility operations and customer rate protections
- Supplemented by 2018 Grid Transformation and Security Act (“GTSA”) and the 2020 Virginia Clean Economy Act (“VCEA”)
- Further enhanced by significant rate reform legislation in 2023

Performance-Based Elements Under Current Law*

ROE Adjustment

- Utility's authorized return on equity ("ROE") may be adjusted positively or negatively based on specified performance metrics
  - Applies to all utility generation and distribution investments, regardless of cost recovery vehicle
  - Historically ± up to 100 basis points based on *generation plant performance, customer service and operating efficiency*
  - 2023 Legislation (2023 Acts of Assembly Ch. 775, Enactment Clause 5)
    - ± up to 50 basis points based on Commission-established criteria
    - Active docket Case No. PUR-2023-00210 with extensive stakeholder input and Staff evaluation
    - 10 scorecard metrics proposed across core performance areas of *reliability, generating plant performance, customer service and operating efficiency*
    - 25+ additional reporting metrics in addition to scorecard metrics
    - Will apply to biennial reviews filed after January 1, 2027

* Elements discussed are applicable to Dominion Energy Virginia (a "Phase II Utility"). Elements applicable to "Phase I Utilities" (APCo) may differ.

Performance-Based Mechanisms Under Current Law-cont'd

Earnings Sharing (Va. Code § 56-585.1 A 9 b)

- Traditional cost-of-service ratemaking does not provide for earnings sharing
- Virginia's construct requires refunds of base generation and distribution revenues to customers if authorized ROE is exceeded
- Provides incentive for efficient utility operations and allows customers to share in those efficiencies
- Earnings sharing % for customers has increased over time
- Current law:
  - ROE "earnings band" has been eliminated
  - 85% of earnings above authorized ROE returned to customers up to 150 basis points above ROE
  - 100% of earnings more than 150 basis points above ROE returned to customers

Performance-Based Mechanisms Under Current Law-cont'd

Multi-Year Rate Plans (Va. Code § 56-581 C)

- 2023 legislation returns to biennial reviews of base rates
  - Utility now projects base rate cost-of-service for each year of two-year biennial period

Other Features

- Mandates under the VCEA for renewable energy development and energy efficiency targets
  - Mandatory Renewable Portfolio Standard Program requirements under § 56-585.5 C
  - Targets for new solar, onshore wind and energy storage resources under § 56-585.5 C
  - Active docket to establish energy savings targets under § § 56-596.2 and 56-596.2:2 in Case No. PUR-2023-00227
- Availability of other performance-based ratemaking features pursuant to § 56-235.6

Performance-Based Mechanisms Under Current Law-cont'd

Other Features

- Competitive procurement for new generation resources
  - Annual RFP for solar, wind, and storage resources (Va. Code § 56-585.5 D 3)
  - Mirrors historic requirements/practices for competitive solicitations
- Other active proceedings on policy matters
  - Amendments to interconnection procedures for distributed energy resources (Case No. PUR-2024- 00211)
  - Updated transportation electrification plans to be filed in 2025 (Case No. PUR-2020-00051)

Summary

Virginia's *existing* regulatory construct for electric utilities:

- Includes a number of performance-based features, including:
  - Reporting metrics
  - Performance scorecards
  - ROE performance incentives or penalties
  - Earnings sharing mechanisms
  - Multi-year rate planning
  - Competitive solicitations
  - Renewable energy mandates and targets

Summary-cont'd

Virginia's *existing* regulatory construct for electric utilities:

- Is highly prescriptive
- Has been recently updated to enhance SCC authority for routine and extensive review of utility performance, cost of service/rates, and adherence to public policy goals.
- Considers the long-term financial stability of investor-owned utilities and balances the interests of relevant stakeholders for the benefit of the Commonwealth.

Questions or Comments?