PBR STAKEHOLDER WORKGROUP SURVEY #1 SUMMARY

This survey will gauge perspectives on the Commonwealth's Current Regulatory Framework for Utility Performance in the Performance Based Regulation (PBR) study Stakeholder process conducted by Virginia Department of Energy.

The results will be shared and discussed with the group during the next stakeholder meeting on Friday, 20 December 2024. Please only submit one response per organization. Survey responses are subject to Freedom of Information Act (FOIA) requirements so do not share anything that you prefer not to be publicly available.

Please submit your responses by COB Wednesday, 18 December 2024.

Survey Questions:

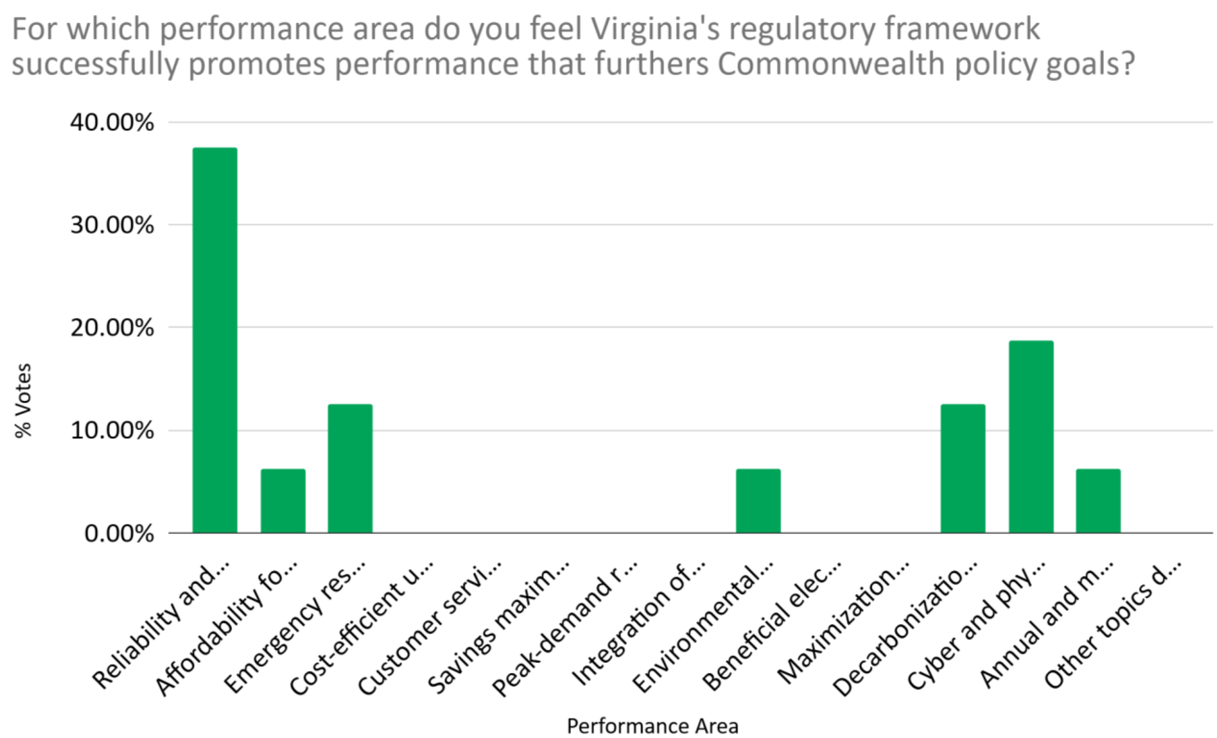
1. For which performance area do you feel Virginia's regulatory framework successfully promotes performance that furthers Commonwealth policy goals? (Choose up to 3 performance areas)
2. Why do you think Virginia's regulatory framework promotes this performance area (e.g. metrics achieved, high rankings compared to peers)?
3. What do you think it is about the current regulatory framework that makes it effectively promote performance in that area?
4. For which performance area do you feel Virginia's regulatory framework currently DOES NOT promote performance that furthers Commonwealth policy goals?
5. Why do you think Virginia's regulatory framework DOES NOT promote this performance area?
6. What do you think it is about the current regulatory framework that makes it NOT effectively promote performance in that area?
7. Other thoughts on current regulatory framework in the Commonwealth for utility performance?

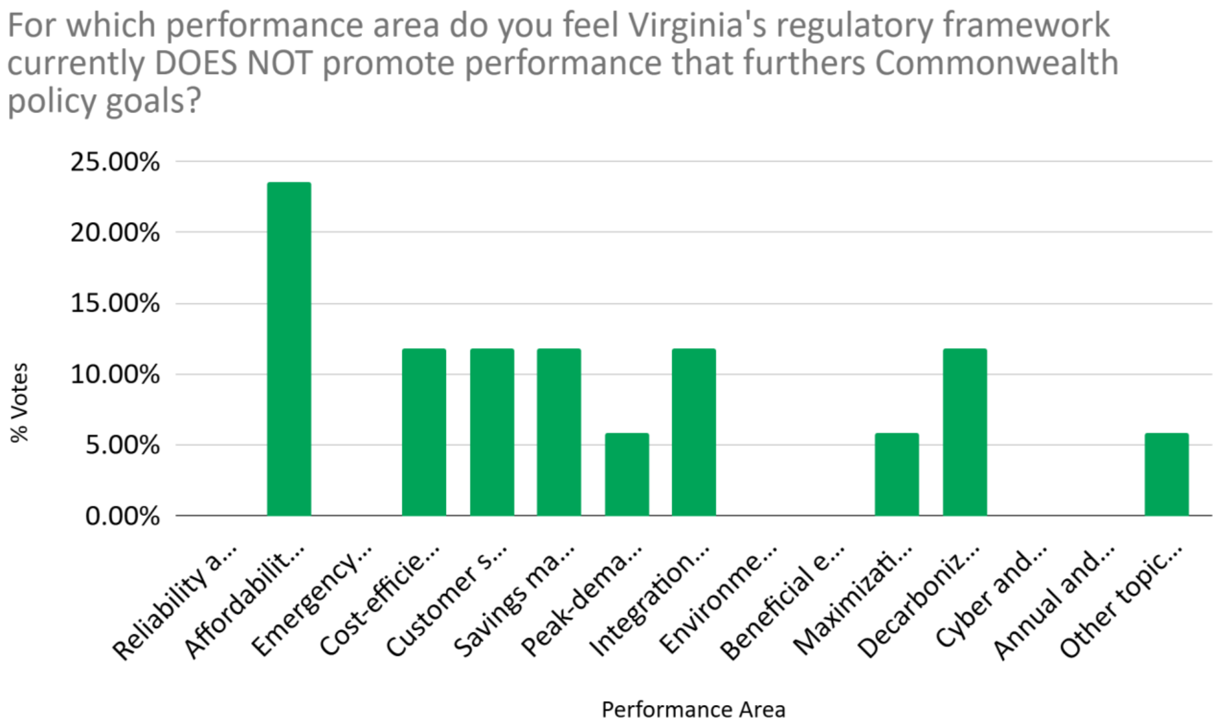
Performance areas to consider in the study

- Reliability and resiliency
- Affordability for customers
- Emergency response and safety

- Cost-efficient utility investments and operations
- Customer service
- Savings maximization from energy efficiency and exceedance of statutorily required savings levels
- Peak-demand reductions
- Integration of distributed energy resources, including the quality and timeliness of interconnection of customer-owned and third party-owned resources
- Environmental justice and equity
- Beneficial electrification, including in the transportation and buildings sectors
- Maximization of available federal funding
- Decarbonization of the commonwealth's electricity sector
- Cyber and physical security of the grid
- Annual and monthly generation and resource needs in addition to hourly generation and resource needs on the 10 hottest and coldest days of the year
- Other topics deemed relevant and useful to the commission in its review of performance areas

Aggregate Responses





Individual Responses

Response 1

Question: For which performance area do you feel Virginia's regulatory framework successfully promotes performance that furthers Commonwealth policy goals? (Choose up to 3 performance areas)

- Reliability and resiliency
- Cyber and physical security of the grid

Question: Why do you think Virginia's regulatory framework promotes this performance area (e.g. metrics achieved, high rankings compared to peers)?

The current regulatory framework in Virginia is providing adequate regulations and incentives for reliability and resiliency. As noted on their website under the current regulatory framework, American Electric Power, the parent company of Appalachian Power, is achieving an Average System Availability Index (ASAI) of 99.96% availability for its customers. Additionally, Appalachian Power- and Dominion-reported System Average Interruption Duration Index (SAIDI) and System Average Frequency Index (SAIFI) metrics have held roughly steady or improved over the previous 5 years as reported in the Annual Report on Grid Modernization, Reliability, and Integration of Renewables. Compared to nationwide peers as reported by U.S. Energy Information

Administration in the Annual Electric Power Industry Report, Dominion's SAIDI and SAIFI metrics were both better than the national average and Appalachian Power was slightly below the national average on both metrics. Furthermore, Dominion is achieving an ASAI availability rate of 99.98% for its customers as noted in its 2024 Integrated Resource Plan.

Our investor-owned utilities (IOUs) already have made large investments in generation and transmission assets, and they appear ready and willing to make additional investments to ensure resource adequacy and reliability.

Question: What do you think it is about the current regulatory framework that makes it effectively promote performance in that area?

Under the current regulatory framework in place through the regional transmission organization, PJM, and nationally through National Electric Reliability Corporation (NERC) oversight, fines for reliability and system performance can be levied for failure to deliver capacity that has been bid. Furthermore, utilities that provide capacity above requirements can receive additional financial rewards. Under this regulatory structure, utilities have strong financial incentives in place to overperform in regards to reliability and resilience. PJM also employs a reserve margin that aims to ensure resource adequacy during system peaks. At the state level, the modified cost-of-service framework currently used in Virginia incentivizes capital expenditures on generation and transmission infrastructure– infrastructure that has occasionally been called upon to meet demand during weather extremes and other peak hours.

Regarding cyber and physical security, The Grid Transformation & Security Act of 2018 ensures that our IOUs have the financial incentive to invest in needed software upgrades and grid hardening projects by rewarding them with assets in the rate base that earn a return.

Question: For which performance area do you feel Virginia's regulatory framework currently DOES NOT promote performance that furthers Commonwealth policy goals?

- Savings maximization from energy efficiency and exceedance of statutorily required savings levels
- Decarbonization of the commonwealth's electricity sector

Question: Why do you think Virginia's regulatory framework DOES NOT promote this performance area?

Under Virginia Code § 56-596.2, Phase I and Phase II utilities (Appalachian Power and Dominion) are required to meet escalating energy savings targets based on 2019 retail sales. In case number PUR-2023-00217, the SCC found that Dominion failed to meet the statutory energy efficiency standards for 2022. It remains to be seen whether this finding will provide sufficient motivation for the company to achieve energy efficiency targets in future years.

Based on Dominion's 2024 Integrated Resource Plan (IRP) there appears to be insufficient incentive under the current regulatory structure for the utility to meet VCEA requirements of retiring all carbon-emitting facilities by 2045. As all of the company's proposed plans in the IRP call for additional carbon-emitting generation facilities to be constructed between now and 2039, it is clear that the statute is not sufficient to motivate the company to decarbonize its generation fleet. Perhaps financial penalties and incentives could be used to influence the company's behavior in this regard.

Question: What do you think it is about the current regulatory framework that makes it NOT effectively promote performance in that area?

IOUs are profit driven. Under the cost-of-service model, if a company can earn higher profits for its shareholders by investing in carbon-emitting capital resources than it can through by investing in energy efficiency and any number of mechanisms that reduce sales (distributed energy resources, non-wire alternatives, demand response, weatherization and energy efficiency programs, etc.) then it will choose the capital investment route that maximizes profits at the expense of ratepayers and society. A framework that decouples revenue from profits, reduces or eliminates the throughput incentive, and rewards excellent service, efficient operation, and decarbonization could go a long way towards solving these problems.

Question: Other thoughts on current regulatory framework in the Commonwealth for utility performance?

Additionally, as noted by Rebane and Goldenburg in How to Restructure Utility Incentives: The Four Pillars of Comprehensive Performance Regulation, revenue decoupling paired with upside and downside performance incentive mechanisms (PIMs) related to the decarbonization of the electricity sector and exceeding energy efficiency targets would permit utilities to maintain current profitability levels while removing the throughput incentive. Properly designed, this would remove the current utility incentive under the cost of service model to increase electricity sales and build additional capacity. A number of upside and downside PIMs examples currently in place nationally can be found at the Rocky Mountain Institute PIMs database at https://pims.rmi.org. We also recognize that if the wide range of PBR tools are not structured in a manner that prioritizes ratepayer impacts, decarbonization and energy efficiency, then there is a risk of increasing energy burden and air pollution impacts for business as usual utility operations.

Response 2

Question: For which performance area do you feel Virginia's regulatory framework successfully promotes performance that furthers Commonwealth policy goals? (Choose up to 3 performance areas)

- Reliability and resiliency

- Environmental justice and equity
- Decarbonization of the commonwealth's electricity sector

Question: Why do you think Virginia's regulatory framework promotes this performance area (e.g. metrics achieved, high rankings compared to peers)?

Environmental justice is a topic that is now discussed in almost every regulatory filing and heavily impacts the Company's considerations when making various investments. The general assembly as provided the Companies with broad means in the grid transformation act to implement prudent security and resiliency investments on the grid. Finally, there are already many regulatory requirements, namely the RPS requirements that Dominion and APCo are already required to meet with aggressive deadlines to promote decarbonization in the energy sector in Virginia. The general assembly has also already implemented a new rate structure for the Companies to utilize that has not been effect long enough to see its results as well.

Question: For which performance area do you feel Virginia's regulatory framework currently DOES NOT promote performance that furthers Commonwealth policy goals?

- Peak-demand reductions
- Maximization of available federal funding

Question: Why do you think Virginia's regulatory framework DOES NOT promote this performance area?

Presently there are no efforts made to collaborate state agencies and the Companies in an effort of obtaining more federal funding.

Question: What do you think it is about the current regulatory framework that makes it NOT effectively promote performance in that area?

Every year the states compete for LIHEAP funding and there is a significant portion of low-income customers that could be assisted by this, but for various reasons do not apply or receive these federal benefits.

Question: Other thoughts on current regulatory framework in the Commonwealth for utility performance?

Generally, I support a move towards decoupling to better control utility expenses and subsequent bills that customers receive.

Response 3

Question: For which performance area do you feel Virginia's regulatory framework successfully promotes performance that furthers Commonwealth policy goals? (Choose up to 3 performance areas)

- Reliability and resiliency
- Emergency response and safety
- Cyber and physical security of the grid

Question: Why do you think Virginia's regulatory framework promotes this performance area (e.g. metrics achieved, high rankings compared to peers)?

Virginia's utilities are reimbursed for operational costs and investments that should result in reliability and resiliency, emergency response and safety, and cyber and physical security of the grid. Reimbursement is subject to SCC scrutiny and approval and includes a healthy profit. New energy production and distribution facilities fall within these categories.

Question: What do you think it is about the current regulatory framework that makes it effectively promote performance in that area?

Application to the SCC for any reimbursement is at the discretion of the utilities. Because of Virginia's regulated monopoly utility model, utilities are free to choose projects that they can promote as fitting into one of these categories and provide the data that supports their positions/assertions. The regulatory framework incentivizes the utilities to select among the most costly and high return projects/improvements. Investor owned utilities (IOUs) have a vested financial stake in, and accountability about, their shareholders' expectation for maximizing their return on investment. Utilities preferred fuel sources and facilities are thus often those that return the highest profits.

Question: For which performance area do you feel Virginia's regulatory framework currently DOES NOT promote performance that furthers Commonwealth policy goals?

- Affordability for customers
- Cost-efficient utility investments and operations
- Savings maximization from energy efficiency and exceedance of statutorily required savings levels

Question: Why do you think Virginia's regulatory framework DOES NOT promote this performance area?

As noted in response to # 4, utilities preferred fuel sources and production and distribution facilities are return the highest profits. Utilities' accomplishment of customer affordability, cost-efficient utility investments and operations, and savings maximization from energy efficiency and exceedance of statutorily required savings levels should result in reduced energy usage and thus lower profits. This also true of most of the other metrics, including especially peak demand reduction, customer service, Integration of distributed energy resources, including the quality and timeliness of interconnection of customer-owned and third party owned resources, environmental justice and equity, decarbonization of the commonwealth's electricity sector, maximization of available federal funding, and annual and monthly generation and resource needs in addition to hourly generation and resource needs on the 10 hottest and coldest days of the year.

Question: What do you think it is about the current regulatory framework that makes it NOT effectively promote performance in that area?

As noted in response to # 4, application to the SCC for any reimbursement is at the discretion of the utilities. Because of Virginia's regulated monopoly utility model, utilities are free to choose projects that they can promote as fitting into one of these categories and provide the data that supports their positions/assertions. The regulatory framework incentivizes the utilities to select among the most costly and high return projects/improvements. IOUs have a vested financial stake in, and accountability about, their shareholders' expectation for maximizing their return on investment. Utilities preferred fuel sources and facilities are thus often those that return the highest profits.

All of the metrics listed in # 6 are de-incentivized under current regulatory (and statutory) policies. For utilities to embrace these metrics, they will need financial incentives. Statutory requirements, such as those in the Virginia Clean Economy Act, that reduce or don't yield profits are not as financially attractive as those noted in # 2. For example, Virginia's IOUs' lack of attainment of energy efficiency statutory requirements vividly reflect this built-in disincentive. There is currently no penalty for failing to meet this statutory requirement.

Despite the IOUs' recent projections for massive energy demands from the burgeoning data center industry electricity requirements, and their accompanying proposals for more energy production and distribution facilities, they have no incentive to offset those energy demand through many, if not all, of the noted metrics.

As we, Virginia Organizing, New Virginia Majority, and Virginia Poverty Law Center wrote in our public comment to VA Energy on December 2, 2024: "[W]e urge Virginia Energy and the SCC to consider these opportunities to modernize our system of utility regulation in a manner that meaningfully addresses the problem of energy affordability for [low and middle income] LMI customers. Additionally, we ask that you consider any potential disproportionate impacts on LMI customers of policy changes suggested during this Study. Utility regulation has always involved a balancing of interests . [W]hat is best for LMI customers can also be best for a utility system as a whole."

Question: Other thoughts on current regulatory framework in the Commonwealth for utility performance?

If Virginia wants to retain its current IOU model AND wants to ensure that its policy goals around any, many or all of the metrics in # 6, then Virginia needs to set forth its specific requirements for these metrics that include rewards for meeting them and enforceable, probably financial, penalties for failing to meet them. Otherwise, Virginia will continue to see increases in the adverse (and, to some extent, avoidable) financial and health and safety results for the customers the IOUs are charged to serve and the ratepayers who effectively pay the IOUs bills and guarantee their profits. Performance metrics and incentives can assist Virginia's utilities in accomplishing their missions and meeting their public service obligations while not disregarding those who rely on their service and not trying to reinvent the utility business model.

Response 4

Question: For which performance area do you feel Virginia's regulatory framework successfully promotes performance that furthers Commonwealth policy goals? (Choose up to 3 performance areas)

- Reliability and resiliency
- Cyber and physical security of the grid
- Annual and monthly generation and resource needs in addition to hourly generation and resource needs on the 10 hottest and coldest days of the year

Question: Why do you think Virginia's regulatory framework promotes this performance area (e.g. metrics achieved, high rankings compared to peers)?

Va's incumbent regulatory framework promotes these performance areas because these areas are the ground-floor, "bread and butter" functions of every electric utility, which must be met to meet the utility's most basic purpose (keep the lights on), which in turn demonstrates that regulators are also meeting their most basic purpose (ensuring the utility keeps the lights on while not bankrupting the state in order to do so (all without regard to other elements of that regulated activity of ensuring lights can be turned on (e.g. the relative affordability of doing so; keeping lights on while also complying with other statutory requirements, such as keeping the lights on while also mitigating costly climate risk).

Question: What do you think it is about the current regulatory framework that makes it effectively promote performance in that area?

The current regulatory framework effectively promotes performance in these three areas because it is SIMPLE and UNAMBIGUOUS to do so. In other words, "keeping the lights on" ain't rocket science.

Question: For which performance area do you feel Virginia's regulatory framework currently DOES NOT promote performance that furthers Commonwealth policy goals?

- Affordability for customers
- Cost-efficient utility investments and operations
- Decarbonization of the commonwealth's electricity sector

Question: Why do you think Virginia's regulatory framework DOES NOT promote this performance area?

Virginia's regulatory framework does not promote performance in the areas of affordability; cost-efficient investment/operations; and decarbonization due to:

(1) regulatory inertia;

(2) the impenetrable gordian knot of Title 56's Chapter 23, which, other than to approx. 24 niche practitioners, is inscrutable to all, including to legislators; and

(3) an outdated, top-heavy, and inflexible incumbent regulatory framework that should be overhauled to reflect today's realities and technologies, so that Virginia has a more viable opportunity to participate in the 21st century Energy-knowledge Economy.

Question: What do you think it is about the current regulatory framework that makes it NOT effectively promote performance in that area?

Virginia's regulatory framework is not effective at promoting performance in the areas of affordability; cost-efficient investment/operations; and decarbonization due to:

(1) regulatory inertia;

(2) the impenetrable gordian knot of Title 56's Chapter 23, which, other than to approx. 24 niche practitioners, is inscrutable to all, including to legislators; and

(3) an outdated, top-heavy, and inflexible incumbent regulatory framework that should be overhauled to reflect today's realities and technologies, so that Virginia has a more viable opportunity to participate in the 21st century Energy-knowledge Economy.

Question: Other thoughts on current regulatory framework in the Commonwealth for utility performance?

I commend stakeholders for drafting a simple regulatory framework that jettisons Virginia's hidebound incumbent framework and that instead rewards -- and thereby ensures -- utilities' high performance at meeting growing load through lowest-risk, high-innovation, and zero-carbon technologies.

Response 5

Question: For which performance area do you feel Virginia's regulatory framework successfully promotes performance that furthers Commonwealth policy goals? (Choose up to 3 performance areas)

- Reliability and resiliency
- Emergency response and safety

Question: Why do you think Virginia's regulatory framework promotes this performance area (e.g. metrics achieved, high rankings compared to peers)?

Virginia's investor-owned utilities have historically been able to provide safe and reliable service.

Question: What do you think it is about the current regulatory framework that makes it effectively promote performance in that area?

Investor-owned utilities mandate to ensure reliable service, together with a financial incentive to expand its rate base, incentivizes utilities to invest in facilities to ensure reliability and safety.

Question: For which performance area do you feel Virginia's regulatory framework currently DOES NOT promote performance that furthers Commonwealth policy goals?

- Other topics deemed relevant and useful

Question: Why do you think Virginia's regulatory framework DOES NOT promote this performance area?

This is a difficult question to answer in the abstract because there is always room for criticism and improvement. For example, under the current framework, some shopping is allowed but it could be expanded. For many years, the Committees have supported expanded access to shopping because increasing competition in the market tends to decrease prices (thus increasing affordability). The current framework compels ratepayers and regulators to constantly monitor utility decisions to ensure that services are provided in an affordable way. Thus "Affordability for Customers" could be an area for improvement. However, alternative forms and frameworks for regulatory ratemaking can have even worse effects on affordability. Thus, the Committees are reluctant to suggest that the current framework "DOES NOT" promote affordability, only that there is always room for improvement.

Question: What do you think it is about the current regulatory framework that makes it NOT effectively promote performance in that area?

See answer to above Question.

Question: Other thoughts on current regulatory framework in the Commonwealth for utility performance?

The Virginia Committee for Fair Utility Rates and the Old Dominion Committee for Fair Utility Rates, (collectively, the “Committees”) represent the industrial customers of Virginia Electric and Power Company (“Dominion”) and the Appalachian Power Company, respectively. The current regulatory framework is not perfect. Utilities are financially incentivized to expand their rate base to earn profits, which requires constant vigilance by regulators and ratepayers to ensure that utility costs are reasonable and prudent. The Committees, however, do not want to suggest that the current regulatory framework necessarily needs to be replaced by an alternative regulatory framework. Multi-year rate plans, performance-based adjustments and incentive mechanisms, and other “alternative” frameworks have been attempted in other jurisdictions, often to the detriment of ratepayers. Although the current framework is not perfect, and other frameworks are available does not mean that the alternatives are necessarily better.

Response 6

Question: For which performance area do you feel Virginia's regulatory framework successfully promotes performance that furthers Commonwealth policy goals? (Choose up to 3 performance areas)

- Reliability and resiliency
- Affordability for customers
- Decarbonization of the commonwealth's electricity sector

Question: Why do you think Virginia's regulatory framework promotes this performance area (e.g. metrics achieved, high rankings compared to peers)?

The current regulatory construct already includes performance-based mechanisms including: reporting metrics, scorecard metrics, earnings sharing, multi-year rate plans, revenue decoupling for RACs, and mandatory requirements and targets to implement public policy objectives.

Question: What do you think it is about the current regulatory framework that makes it effectively promote performance in that area?

Under the current regulatory construct, Dominion Energy Virginia's customers have uninterrupted power 99.98% of the time, and that power costs them well below the national average rate. The Company is also investing billions of dollars of capital to ensure that an adequate and diverse generation supply mix, including nation-leading development of renewable energy resources, exists to meet current and anticipated demand, and that the transmission and distribution grid likewise remains robust.

Question: Why do you think Virginia's regulatory framework DOES NOT promote this performance area?

The current regulatory framework in Virginia for investor-owned electric utilities in the Commonwealth is a robust scheme that affords a high level of Commission oversight over utility operational and financial performance and reasonably aligns the interests of customers and the utility through a variety of rate mechanisms, targets, and requirements. The construct allows for and incentivizes utility operations that meet customers' needs for safe, reliable, and affordable electric service; fairly compensates the utility and its investors for the cost to serve; and facilitates the implementation of significant public policy priorities of the Commonwealth, including a nation-leading clean energy transition, among others. For these reasons, Dominion Energy Virginia does not initially believe that the current regulatory framework needs to be further modified or replaced at this time by other aspects of "performance-based regulation" or other alternative regulatory tools. The current construct affords a high level of oversight over utility operational and financial performance and reasonably aligns the interests of stakeholders in order to deliver significant value to customers and support the policy goals of the Commonwealth. The Company continues to support the current regulatory framework for investor-owned electric utilities as an appropriate balance of customer and utility interests and does not generally believe a change in the model is necessary at this time.

Question: What do you think it is about the current regulatory framework that makes it NOT effectively promote performance in that area?

As previously stated, Dominion Energy Virginia does not believe that the current regulatory framework needs to be further modified or replaced. The current construct properly balances customer and utility interests, and facilitates implementation of the Commonwealth's public policy priorities.

Question: Other thoughts on current regulatory framework in the Commonwealth for utility performance?

The current construct affords a high level of oversight over utility operational and financial performance and reasonably aligns the interests of stakeholders in order to deliver significant value to customers and support the policy goals of the Commonwealth. Stability in this construct, which was just significantly altered in 2023, is important to customers, the utility, its investors, and the Commonwealth. Commission review of performance incentives for the Commonwealth's electric utilities is already underway in a separate pending docket and, generally speaking, performance-based regulation is highly complex, involving numerous considerations in its design and implementation. Further alterations to the current regulatory framework to incorporate performance-based elements does not seem warranted in light of the existing regulatory tools designed to achieve the same objectives.

Response 7

Question: For which performance area do you feel Virginia's regulatory framework currently DOES NOT promote performance that furthers Commonwealth policy goals?

- Affordability for customers
- Customer service
- Integration of distributed energy resources, including the quality and timeliness of interconnection of customer-owned and third-party owned resources

Question: Why do you think Virginia's regulatory framework DOES NOT promote this performance area?

Affordability - Historically, there is a record of utility over-earnings that must be trued-up on a regular basis. The securitization of debt to a third-party finance company with associated interest payments was another example of poor value and dubious affordability.

Customer Service - The implementation with very little or no notification to customers, no concurrent running of the legacy system alongside the new system, and no Beta testing with a full system switch-over that caused countless hours as well as months to get back to a shadow of previous performance as well as no recognition of Dominion that the new system does not represent even a basic continuation of service level for customers is the worst (among many) examples that address this issue.

Integration of distributed energy resources, including the quality and timeliness of interconnection of customer-owned and third-party owned resources. - A lack of timeliness for reviews which result in delays well beyond the 30 and 60 day time limits established in code for permission to operate net energy metering systems is very common. In addition, the additional costs due to Dominion imposed "Interconnect Parameters" for direct transfer trip on mid-sized NEM projects by Dominion when DTT is not generally considered a utility best practice even after being made aware that such costs make NEM projects infeasible is atrocious. Finally, the disregard of the need to coordinate and subject themselves to the authority of regulators that was shown when the "Interconnect Parameters" were initially implemented by Dominion makes one question if the company is actively trying to eliminate, delay, or reduce the integration of distributed energy resources in an organized manner, or if the company is just accidentally coming across that way.

Question: What do you think it is about the current regulatory framework that makes it NOT effectively promote performance in that area?

The State Corporation Commission appears to not have been enforcing their regulatory authority. If no one is out policing the streets, things start to go wrong.

Question: Other thoughts on current regulatory framework in the Commonwealth for utility performance?

Performance based rates should not be considered if the goal is to increase profits or to reward a utility for meeting the basic (established within code) requirements of their work. Regulators need to begin by trying to enforce existing statutes and codes before we decide that the system must be changed. Right now, the system is going without enforcement, or without sufficient enforcement. That would be the best place to start.

Response 8

Question: For which performance area do you feel Virginia's regulatory framework currently DOES NOT promote performance that furthers Commonwealth policy goals?

- Affordability for customers

- Customer service
- Integration of distributed energy resources, including the quality and timeliness of interconnection of customer-owned and third-party owned resources

Question: Why do you think Virginia's regulatory framework DOES NOT promote this performance area?

Affordability: Rates for industrial customers are becoming more costly as compared to a peer group of southeastern states.

Customer service: Providing insufficient notice to manufacturing customers on planned outages.

Integration of distributed energy resources, including the quality and timeliness of interconnection of customer-owned and third-party owned resources: Providing roadblocks for customers seeking to utilize on-site generation when utility resources are not available in a timely manner.

Question: What do you think it is about the current regulatory framework that makes it NOT effectively promote performance in that area?

There in insufficient means for customers or third-party providers to overcome utility practices.