

# SCC Presentation Utility Ratemaking 101

December 20, 2024





## SCC's Authority - Legislative

### Article IX of Virginia Constitution

- Establishes the SCC as a permanent Commission.
- SCC given duty to regulate the rates, charges, services and facilities of railroad, telephone, gas, and electric companies.
- SCC has other powers and duties as may be prescribed by law.
- Subject to the provisions of the Constitution and to such requirements as may be prescribed by law.

### Title 12.1. State Corporation Commission

- Legislative implementation of Article IX.
- Describes powers and duties in more detail, e.g., Commission procedures, subordinate employees, appeals, etc.

### Title 56 – Public Service Companies

- Chapter 10 – traditional utility ratemaking provisions.
- Chapter 23 – includes hybrid utility ratemaking provisions for investor-owned utilities established in 2007 legislation.
- Chapter 24--Electric Utility Integrated Resource Planning.

SCC is an economic regulator

## SCC's Authority

All reasonable and prudent costs of providing utility service are paid for by customers

- This includes financing costs (debt and profit margin)

Sets rates for electric, natural gas, water and wastewater utilities

- Does not set rates for municipal or federal entities

# Types of Electric Company Rate Proceedings



**FUEL RECOVERY FACTOR** – RECOVERY OF FUEL COSTS DOLLAR-FOR-DOLLAR WITH NO PROFIT COMPONENT



**RATE ADJUSTMENT CLAUSES** – RECOVERY OF A SPECIFIC COMPONENT OF COST OF SERVICE, ON A DOLLAR-FOR-DOLLAR BASIS



**BASE RATES** – OPPORTUNITY TO RECOVER THE REST OF COST OF SERVICE

# Regulation of Dominion Energy Virginia's Rates

Code of Virginia Code - Chapter 23. Virginia Electric Utility Regulation Act

## ROE and Equity Ratio

- SCC may use any methodology to determine ROE
- 2023 legislation enables performance-based adjustments to ROE in biennial reviews

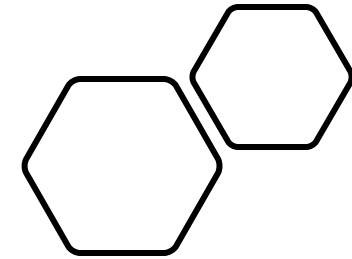
## Earnings Test

- Sharing above fair rate of return is 85% customers/15% shareholders
- No sharing above 150 bp of fair rate of return (100% customers)
- Can still defer for future rate recovery up to 70 basis points (bp) below fair rate of return: asset impairments, AMRs, costs to comply with state/federal laws and natural disasters
- Can defer for future rate recovery severe weather costs up to fair rate of return

## Going-Forward Rates

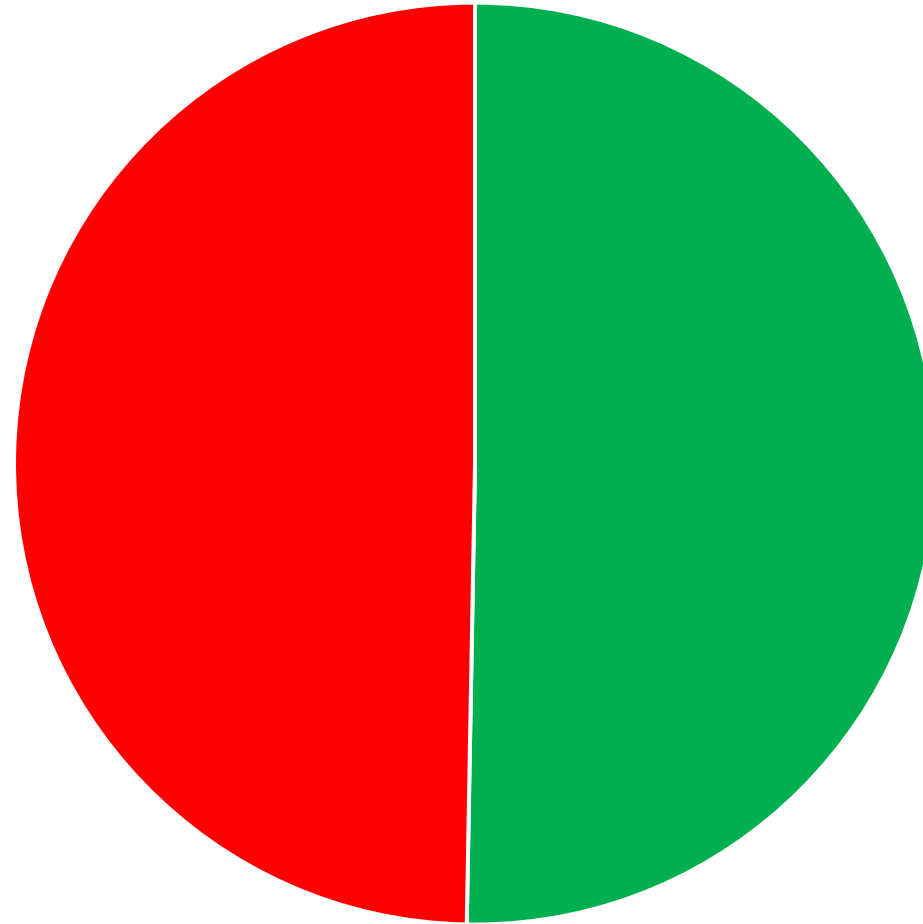
- Beginning with 2025 Biennial Review
- Sets rates for two 12-month rate years

<u>Dominion Energy Virginia</u>		<u>Current Residential</u>	<u>Proposed Increase if</u>	<u>Proposed Bill</u>	<u>Requested Eff.</u>
		<u>Bill</u>	<u>Pending</u>		<u>Date</u>
Base Rates	Base	\$ 70.41	\$ -	\$ 70.41	-
Fuel Factor	Fuel	\$ 20.74	\$ -	\$ 20.74	-
Deferred Fuel Cost Charge	Fuel	\$ 3.22	\$ -	\$ 3.22	-
Rider T1*	Transmission	\$ 9.69	\$ -	\$ 9.69	-
Rider GEN	Generation	\$ -	\$ 7.58	\$ 7.58	4/1/25
Rider BW	Brunswick Gas CC	\$ 2.35	\$ (2.35)	\$ -	4/1/25
Rider GV	Greenville Gas CC	\$ 2.47	\$ (2.47)	\$ -	4/1/25
Rider B	Biomass	\$ 0.63	\$ (0.63)	\$ -	4/1/25
Rider US-2	Solar	\$ 0.17	\$ (0.17)	\$ -	4/1/25
Rider US-3	Solar	\$ 0.69	\$ (0.69)	\$ -	4/1/25
Rider US-4	Solar	\$ 0.27	\$ (0.27)	\$ -	4/1/25
Rider CE	Solar and PPAs	\$ 2.88	\$ 0.79	\$ 3.67	5/1/25
Rider SNA	Nuclear Relicensing	\$ 1.29	\$ 2.19	\$ 3.48	9/1/25
Rider RPS	RECs	\$ 4.69	\$ 2.99	\$ 7.68	9/1/25
Rider RGGI	RGGI	\$ -	\$ -	\$ -	-
Rider OSW	Offshore Wind	\$ 8.63	\$ 2.60	\$ 11.23	9/1/25
Rider SMR	SMR	\$ -	\$ 0.29	\$ 0.29	9/1/25
Riders C1A/C2A/etc.	Energy Efficiency	\$ 1.55	\$ 0.04	\$ 1.59	9/1/25
Rider DIST	GT and SUP	\$ -	\$ 6.26	\$ 6.26	6/1/25
Rider U	Strategic Undergrounding	\$ 4.17	\$ (4.17)	\$ -	6/1/25
Rider GT	Grid Transformation	\$ 3.22	\$ (3.22)	\$ -	6/1/25
Rider E	Coal Ash	\$ 1.35	\$ -	\$ 1.35	-
Rider CCR	Coal Ash	\$ 1.18	\$ -	\$ 1.18	-
Rider RBB	Rural Broadband	\$ 0.42	\$ 0.11	\$ 0.53	5/1/25
PIPP USF	PIPP	\$ -	\$ -	\$ -	-
<b>Total</b>		<b>\$ 140.02</b>	<b>\$ 8.88</b>	<b>\$ 148.90</b>	



\* DEV recovers \$9.70 per month in base rates for transmission in addition to the Rider T1 RAC.

**Dominion Energy Virginia  
Base Rate Revenues vs. RAC Revenues**



■ Base Rates ■ RACS

March 2024  
Investor Day  
Presentation  
DEV 5-Year  
Capital  
Summary

	<b>Growth Capex <u>2025-2029</u></b>
Electric Transmission	\$12.2
Electric Distribution	4.9
Solar/Storage/OSW	6.8
Nuclear/SLR	3.6
Grid Transformation	3.4
Other	<u>4.7</u>
<b>Total</b>	<b>\$35.5 Billion</b>



# Regulation of Appalachian Power Company's Rates

§ 56-585.8. Biennial rate reviews

## ROE and Equity Ratio

- SCC may use any methodology to determine ROE
- 2023 legislation enables performance-based adjustments to ROE in biennial reviews

## Earnings Test

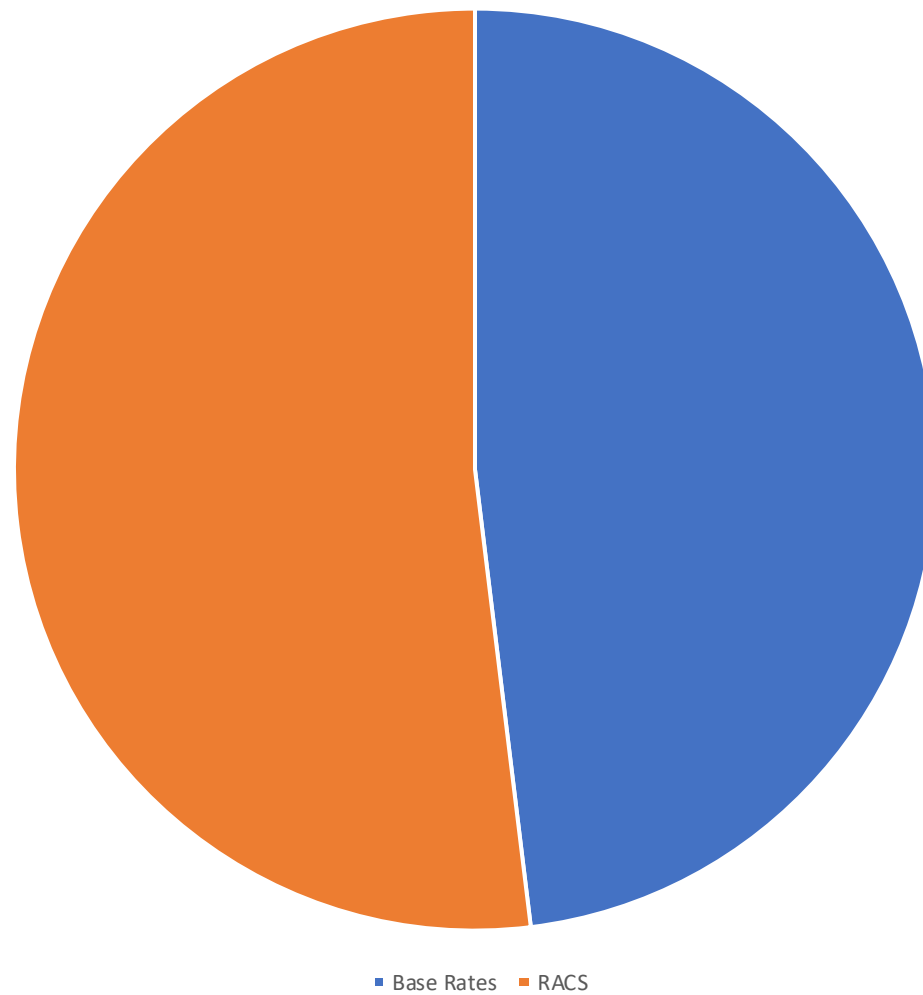
- Collar for Earnings Test is 100 bp – earnings within the collar are neither excessive nor insufficient
- Customers receive 100% of earnings above collar
- Can defer severe weather costs and natural disaster costs to top of the collar

## Going-Forward Rates

- Rates set for the rate year commencing the year after the Biennial Review (i.e. 2025 rate year for 2024 BR)
- Final Order shall be issued by November 20th

<u>Appalachian Power Company</u>		<u>Current Residential Bill</u>	<u>Proposed Increase if Pending</u>	<u>Proposed Bill</u>	<u>Requested Eff. Date</u>
Base Rates	Base	\$ 82.79	\$ 1.39	\$ 84.18	1/1/25
Fuel Factor	Fuel	\$ 41.39	\$ -	\$ 41.39	-
PIPP USF	PIPP	\$ 1.32	\$ -	\$ 1.32	-
T-RAC	Transmission	\$ 36.46	\$ -	\$ 36.46	-
G-RAC	Dresden Gas CC	\$ 3.21	\$ (0.01)	\$ 3.20	11/1/25
EE-RAC	Energy Efficiency	\$ 2.37	\$ -	\$ 2.37	-
DR-RAC	Demand Response	\$ -	\$ 0.13	\$ 0.13	6/1/25
E-RAC	Coal Ash	\$ 2.84	\$ -	\$ 2.84	-
BC-RAC	Rural Broadband	\$ 0.59	\$ -	\$ 0.59	-
RPS-RAC (legacy)	Voluntary RPS	\$ -	\$ -	\$ -	-
Rider A.5 RPS	VCEA	\$ 1.03	\$ -	\$ 1.03	-
Rider A.5 PCAP	VCEA	\$ 0.13	\$ -	\$ 0.13	-
Rider A.6 RPS	VCEA	\$ <u>0.11</u>	\$ -	\$ <u>0.11</u>	-
Total		\$ 172.24	\$ 1.51	\$ 173.75	

### Appalachian Power Company Base Rate Revenues vs. RAC Revenues



# Appendix



# Relevant Terms

Capital Structure – The composition of a utility's financing sources, primarily the mix of debt and equity.

Cost of Capital – A utility's overall cost of financing, considering all sources. Aka cost of money.

Cost of Service – Cost of providing utility service to customers. Includes recovery of the following: operating expenses, capital expenditures and financing costs (including profit margin).

Earnings Test – Measures earnings of utility over a 13-month historic period.

Rate Base – The amount of investment a utility has made but not yet recovered from customers. The amount a utility finances and thus have an opportunity to earn its cost of capital on.

Tracker (also Rate Adjustment Clause or Rider) – A rate mechanism separate from base rates. Typically used for single-issue costs. Reduces regulatory lag, but shifts risks to customers.

# Relevant Terms - continued

Rate of Return – The *authorized* rate of return is the approved cost of capital. The *earned* rate of return is the return actually earned in a historical period.

Return on Equity (ROE) - The *authorized* ROE is the approved cost of capital. The *earned* ROE is the return actually earned in a historical period.

Questions?

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