Virginia Regulatory Assessment Template

Instructions:

- Select one (1) "performance area" or outcome from the following set to evaluate how existing regulatory mechanisms in Virginia support (incentivize) the achievement of that outcome or disincentivize the achievement of the outcome. Consider this question for each regulatory mechanism identified in the template, and for the overall performance of Virginia's utility regulatory structure to support (or hinder) that outcome (performance area).
- Each stakeholder should complete worksheets for at least two performance areas of their choosing. Additional (more than two) performance areas can be evaluated in additional worksheets, at your discretion.

Reference Key: Performance Areas from *House Joint Resolution No. 30 / Senate Joint Resolution No. 47*

Reliability and resiliency	Affordability for customers
Emergency response and safety	Cost-efficient utility investments and operations
Peak demand reductions	Maximization of available federal funding
Cyber and physical security of the grid	Savings maximization from energy efficiency and exceedance of statutorily required savings levels
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	DER integration and speed of interconnection
Customer service	Beneficial electrification
Environmental justice and equity	Electricity decarbonization

Regulatory Assessment

Outcome	What regulatory *outcome* or *performance area* does this assessment consider?	**Peak Demand Reductions**		
Do the existing regulatory mechanisms and programs sufficiently support the outcome?				
Key				
+	**Yes**	The mechanism or program **incents achievement** of this outcome.		
0	**No Impact**	The mechanism or program **does not seem to impact the achievement** of this outcome.		
-	**No**	The mechanism or program **disincentivizes the achievement** of this outcome.		
Existing Regulatory Mechanisms and Programs	**Description**	**Mechanism or Program's Effect on Outcome**		**Issues for Attention**
		Score (+/0/-)	**Discussion**	

Rate Reviews (typically biennial)	Forward-looking	**0**	The Commission's forward-looking decisions about what rates it approves should influence the utility to conduct its business in a particular manner. However, the high use of RACs seem to indicate that the current rate structure has little influence on peak demand reductions. RACs allow for utilities to circumvent the confines of the base rate structure to seek cost recovery for investments that would in many other jurisdictions be included in base rates, like planned generation resources. Virginia's laws do not ignore the need to evaluate peak demand reduction options, IRP Statute §56-598 1 c states "reducing load growth and peak demand growth through cost-effective demand reduction programs." The IRP and rate reviews are two places to evaluate peak load reduction concepts and evaluate the effectiveness of rate design in encouraging peak demand reduction.	In some states, time of use or time of day rates help to connect costs to provide service to the time the service is provided to incentivize customers to use energy when it is least expensive. This can shift the load away from peak demand times (i.e. the most expensive time to provide service). Evaluating any existing time of use offerings and considering adjusting the time of use rate structure to promote peak demand reduction is something the Commission should undertake. Rate reviews could encourage peak demand reduction if the utility were required to develop rate structures to incent load shifting through time of use rates as well as enhanced demand response programs, virtual power plants, managed electric vehicle charging and other practices and technologies that make the most of load flexibility to reduce peak demand. One item of discussion that was raised at the Commission's recent Technical Conference was the idea of establishing a new customer class for large load (200MW or larger) customers. Evaluating whether the current customer class designations and cost allocations are adequate and support just and reasonable rates for all customers is something the Commission is evaluating in a rate review.
	Backward-looking (w/ earnings adjustments)	-	There are currently earnings adjustments opportunities related to: reliability, generating plant performance, customer service, and operating efficiency. This backward-looking earnings adjustment does not seem to impact the achievement of modest outcomes currently associated with each category and does not seem to impact the achievement of peak demand reduction. Specifically, according to Staff's Dec. 2024 presentation, energy efficiency achievements are tied to the category operating efficiency, under Energy Efficiency/RPS Compliance. While new benchmarks are being developed, the utilities did not all meet the initial benchmarks established, even with the incentive in place.	Energy efficiency is related to decreased energy utilization and perhaps to peak demand reduction, it is the current example we have of an incentive meant to decrease usage that has not yielded the desired results across the board. This highlights the need to consider whether utilities should be incentivized to achieve what is already required by the law or whether incentives should only be attached to exceeding legal requirements. Compliance with the law should not need to be incentivized but failure to, should be penalized.
ROE Determinations		-	Currently, ROE determinations lead to gold-plating and seeking increasing load growth to justify capital investments in expensive carbon emitting generation resources.	Reconsidering how the ROE is calculated could influence a utility to pursue cost saving measures, like peak load reduction and to focus on optimizing clean and affordable options over expensive carbon emitting sources. Please see: Rate of Return Equals Cost of Capital: A Simple, Fair Formula to Stop Investor-Owned Utilities From Overcharging the Public - American Economic Liberties Project

			This disincentivizes reducing peak load, maximizing cost savings, and limiting unnecessary capital investments through alternative procurement like power purchase agreements.	
Rate Adjustment Clauses (i.e., trackers)	RACs overall (general assessment of the use of RACs)	-	RACs disincentivize cost containment because they allow the utility to recover costs outside of what's permitted in base rates. The RAC structure in Virginia provides recovery for specific projects, costs which would in many other jurisdictions be included in base rates. RACs should only be permitted to account for unforeseen costs that were reasonably incurred rather than used to recover planned capital expenses and costs.	The RAC structure disincentivizes minimizing unnecessary investments that could have been avoided through more cost conscious planning that prioritizes peak demand reduction, clean energy, load flexibility, non-wire alternatives and grid enhancing technologies.
	Fuel Cost Recovery	-	Electric utilities in Virginia are permitted to pass through to customers the cost of the fuel purchased for their facilities. As such there is a lack of a disincentive to penalize overuse of carbon emitting fuels. This lack of disincentive allows the utilities to continue to choose higher cost carbon emitting generation as they generate a higher ROE for the utility rather than pursuing energy efficiency or demand response as a resource.	Explore the potential for fuel cost sharing mechanism and an escalating percentage of carbon emitting fuel costs to be borne by the utility and their shareholders. Exploring this option to eliminate cost recovery from uneconomic carbon emitting facilities may be an opportunity to protect ratepayers and choose energy efficiency or demand side management resources.
	Purchased power	**0**		
	Demand response program costs	**0**	No current structure incentivizes peak demand and demand response.	Demand response as a resource could be considered as a mechanism to limit peak demand and reduce carbon emissions from peaker plants. New York and Connecticut have programs related to this.
	RPS compliance costs	**0**		
	Broadband capacity extension	**0**	Not applicable	Not applicable
	Low-income programs (lost revenue recovery)	**0**	Not applicable	Not applicable
	Capital projects (e.g., combined cycle gas projects, offshore wind, solar, distribution system undergrounding, distribution grid transformation, nuclear life extension, etc.)			
Other trackers (user choice to select additional trackers used in Virginia rate making for attention)				

Transmission cost recovery (FERC formula rates)	Transmission costs as allocated in FERC formula rates, recovered from customers via trackers (RACs) and/or base rates	**0**	Not applicable	Not applicable
Performance adjustments and measurement	ROE adjustment mechanisms	**0**	There is not a current adjustment for peak demand reduction, whether such an incentive was significant to incentive action from the utility is unclear.	Understanding materiality and sufficient incentive, but not excessive to the detriment of ratepayers, to encourage utility action should be examined.
	Energy efficiency savings target (ROE adder applied to DSN operating expenses)	**0**	Same as above	Same as above
	Performance mechanisms (e.g., metrics, scorecards, PIMS), including Case No. PUR-2023-00210 (Separate SCC PBR Case)	**0**	Metrics and a scorecard would be informative	Setting benchmarks and goals for achievement could be meaningful in understanding the potential impacts of peak demand reduction.
Other ratemaking and regulatory features	IRPs	+	The IRP is the opportunity to evaluate the utility demand forecast to better inform future decisions made in reliance on its assumptions.	The IRP is an opportunity for the Commission to guide the utility even in the absence of incentives or penalties, because the Commission is evaluating the utility's resource portfolio suggestions against the full policy backdrop of the Commonwealth to include the Commonwealth Clean Energy Policy, the VCEA, and the Virginia Environmental Justice Act among others..
	Certificates of Public Need and Necessity (CPCN)	+	The Commission should evaluate whether the utility has first pursued peak demand reduction and other avenues to influence the projected load before seeking a CPCN to build a new carbon emitting resource.	
	Rate design (including universal service fee)	**0**	Not applicable	Not applicable
	Pilot programs	+	Pilot programs for storage options that promote and enable load shifting for peak demand reduction efforts should be explored.	Time of use programs and EV managed charging with the goal of developing permanent programs and examining adjustments to the rate structure could be informative.

Overall Assessment

Overall, does the existing regulatory framework support achievement of the identified outcome?		**Discussion**
+ (YES) incents achievement		
0 (NO IMPACT)		

- (NO) disincentivizes achievement		The current structure and the high use of RACs has little impact on peak demand reduction and instead incentives capital investment in generation. Alternatives to incentivize load shifting, energy efficiency, non-wire alternatives and clean energy to reduce peak load should be explored.