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?			
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			

	Backward-looking (w/ earnings adjustments)			
ROE Determinations				
Rate Adjustment Clauses (i.e., trackers)	RACs overall (general assessment of the use of RACs)	**0**	Cost trackers or RACs overall do not provide an incentive to reach decarbonization but can weaken rate containment as noted by RMI.	The SCC should consider the significant reduction of permitted RACs and include these in base rates to help control cost containment.
	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.	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. Rocky Mountain Institute's Economic Dispatch Dashboard notes that Clover and Virginia City Hybrid Electric Center's combined operations cost rate payers more than $39m in 2023. Disallowing some percentage of fuel cost recovery from carbon emitting facilities and full fuel cost recovery for uneconomic dispatch may be an opportunity to both protect ratepayers and speed decarbonization.
	Purchased power			
	Demand response program costs			Demand response as a resource could be considered as a mechanism to limit peak demand and reduce carbon emissions from peaker plants.
	RPS compliance costs	**-**	At current deficiency payments in § 56-585.5 are permitted to be passed through to ratepayers. As such this disincentives compliance or at best is neutral.	Deficiency payments in § 56-585.5 could be an example of a negative PIM that incentivizes decarbonization if those costs were instead borne by the utility and their shareholders and not passed along to ratepayers through a RAC.
	Broadband capacity extension	**0**	Does not impact decarbonization	
	Low-income programs (lost revenue recovery)	**0**/+		Social benefit to low income programs lost revenue recovery as these ratepayers are at the highest risk of disconnections and associated reconnection fees.
	Capital projects (e.g., combined cycle gas projects, offshore wind, solar, distribution system undergrounding, distribution grid transformation, nuclear life extension, etc.)	**0**/ -	A utility earning a ROE on capital projects can be neutral or negative. If the utility pursues a carbon emitting capital project (ex. combined cycle gas or combustion turbine) due to the opportunity to make a higher ROE it serves as a negative. Similarly if a utility can earn more value for shareholders by pursuing zero carbon capital projects such as onshore wind or solar it serves as a neutral or slightly positive mechanism.	Capex-opex equalization or Totex ratemaking could be explored as a rate making tool to remove the financial incentive or bias for utilities to pursue more expensive and often carbon emitting generation resources. Additional basis points could be awarded to utilities for exceeding statutorily required carbon free generating resources or RPS Program requirements as listed in § 56-585.5.

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 to decarbonization.	
Performance adjustments and measurement	ROE adjustment mechanisms			
	Energy efficiency savings target (ROE adder applied to DSN operating expenses)			
	Performance mechanisms (e.g., metrics, scorecards, PIMS), including Case No. PUR-2023-00210 (Separate SCC PBR Case)	**0**	It is too early to determine if the PIMs associated with PUR-2023-00210 will provide any benefits associated with decarbonization as the final incentives do not go into effect until biennial reviews occurring after January 1, 2027.	PIMs need to be implemented in combination with metrics and scorecards that are available for the public to view. Metrics and PIMs with positive and negative basis point adjustments associated with total GHG reduction as well as total lead and mercury reductions should be explored. Beneficial electrification of HVAC equipment, EVs, agriculture and other sources as measured in a reduction of sector based GHGs could also be explored as a metric with associated adjustments as is in place in Hawaii, New York and Colorado.
Other ratemaking and regulatory features	IRPs	**-**	Under the current IRP structure energy efficiency and demand side management as resources are not explored. In general the current IRP structure seems to be more of a reporting exercise than a true plan. Requiring utilities to plan to meet the obligations within code such as the retirement of carbon emitting facilities by 2045/2050 and meeting annual EERS targets should be a minimum requirement.	
	Certificates of Public Need and Necessity (CPCN)	**+/ 0**	Requiring utilities to apply to the SCC for a CPCN may promote decarbonization as current code requires EERS targets to be met before being granted a CPCN except for narrow circumstances.	

	Rate design (including universal service fee)		Revenue decoupling could be considered as a mechanism for utilities to pursue energy efficiency and lower cost distributed energy resources. Capex-opex equalization or Totex ratemaking could be explored as a rate making tool to remove the financial incentive or bias for utilities to pursue more expensive and often carbon emitting generation resources.	Revenue decoupling can allow for utilities to pursue demand side management, peak demand reduction strategies, energy efficiency and other measures to allow them meet permitted revenue rates without higher cost carbon emitting resources being built or operated uneconomically. Totex ratemaking has yet to be used in the US but is being implemented in the UK. A study of the feasibility could provide insight into its application in VA.
	Pilot programs	+	Shared solar	

Overall Assessment

Overall, does the existing regulatory framework support achievement of the identified outcome?		**Discussion**
+ (YES) incents achievement		§ 56-585.1 states that the unless the Commission finds in its discretion and after consideration of all in-state and regional transmission entity resources that there is a threat to the reliability or security of electric service to the utility's customers, the Commission shall not approve construction of any new utility-owned generating facilities that emit carbon dioxide as a by-product of combusting fuel to generate electricity unless the utility has already met the energy savings goals identified in § 56-596.2 and the Commission finds that supply-side resources are more cost-effective than demand-side or energy storage resources. This is a positive incentive for decarbonization.
0 (NO IMPACT)		
- (NO) disincentivizes achievement		Fuel Cost Recovery RAC does not promote decarbonization as carbon emitting fuel costs are borne by customers rather than the utility and its shareholders. RPS compliance costs through deficiency payments are merely a pass through to ratepayers and do not incentivize decarbonization and these costs should be borne by the utility and its shareholders.