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 for energy efficiency savings maximization but can weaken overall rate containment as noted by RMI.	Consider the significant reduction of permitted RACs and include them 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 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			
	Demand response program costs	**0**	Not applicable.	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**	RPS compliance costs do not impact savings maximization of energy efficiency	
	Broadband capacity extension	**0**	Does not impact savings maximization of energy efficiency	
	Low-income programs (lost revenue recovery)	**0**/+	§ 56-596.2 requires utilities when developing energy efficiency programs to have at least 15 percent of such proposed costs of energy efficiency programs be allocated to programs designed to benefit low-income, elderly, or disabled individuals or veterans.	There is a 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.)			
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.	
Performance adjustments and measurement	ROE adjustment mechanisms			
	Energy efficiency savings target (ROE adder applied to DSN operating expenses)	+	The 20 basis point adder for Phase 1 and Phase 2 utilities per 0.1% exceeding their EERS targets is an example of a positive PIM.	
	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 energy efficiency 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. PUR-2023-00210 is a good first step in establishing metrics to measure regarding energy efficiency. However it is too early to determine the true effectiveness of the metrics as they apply to biennial reviews after January 1, 2027. No additional positive performance PIMs should be considered at this time, however additional negative penalties for not meeting EERS targets as established by the SCC should be considered.
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 energy efficiency as current code requires EERS targets to be met before being granted a CPCN for carbon emitting resources except for narrow circumstances.	
	Rate design (including universal service fee)		Revenue decoupling such as applied in natural gas utilities in Virginia should be considered as a mechanism for electric utilities to pursue energy efficiency and lower cost distributed energy 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. Revenue decoupling alone or paired with other mechanisms such as lost revenue adjustment mechanism or PIMs could be combined to achieve energy efficiency savings maximization.

	Pilot programs	+	Energy efficiency pilot programs are in the public interest provided that the pilot program is (i) of limited scope, cost, and duration and (ii) intended to determine whether a new or substantially revised program would be cost-effective. Per § 56-585.1	

Overall Assessment

Overall, does the existing regulatory framework support achievement of the identified outcome?		**Discussion**
+ (YES) incents achievement		§ 56-585.1 states that the SCC may not grant a CPCN for new carbon emitting resources if the utility fails to achieve its EERS targets, unless through a narrow reliability pathway that includes the Commission finding that supply-side resources are more cost-effective than demand-side or energy storage resources. This is a positive incentive for the maximization of energy efficiency. 20 basis points increase for each 0.1% in excess of EERS targets. Well designed energy efficiency pilot programs.
0 (NO IMPACT)		
- (NO) disincentivizes achievement		The current regulatory framework does not promote maximization of energy efficiency. Despite reasonable EERS targets Dominion Energy Virginia did not meet its 2022 target. A negative ROE adder could be considered for missing EERS targets in addition to the SCC not granting a CPCN for carbon emitting resources as code currently states (see above).