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?	Savings maximization from energy efficiency and exceedance of statutorily required savings levels		
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		

	Backward-looking (w/ earnings adjustments)	0		
ROE Determinations				
Rate Adjustment Clauses (i.e., trackers)	RACs overall (general assessment of the use of RACs)	-	There is nothing inherently +/0/- about RACs for energy efficiency. The RACs for capital projects and fuel cost recovery dwarf the impact of the other RACs.	
	Fuel Cost Recovery	-	Because the entire fuel cost is passed through to customers, the utility has no incentive to help customers use electricity more efficiently, thereby using less fuel.	Consider a PIM in which the Fuel Cost Recovery is shared between ratepayers and the utility/shareholders. This would incentivize the utility to reduce fuel costs, leading to greater efficiency and DSM.
	Purchased power	0/-/+	The cost of energy purchased partially determines whether EE programs are cost-effective in comparison. If purchased power becomes more expensive, ee programs become more cost-effective. When power is cheap, ee programs are harder to get approved by the SCC.	
	Demand response program costs	0	Not applicable	Consider Demand Response as a Resource similar to EERS, so that utilities have more incentive to lower peak demand through demand response instead of building peaker plants.
	RPS compliance costs	0	Not applicable	Conversely, increasing energy efficiency and demand response should lower RPS compliance costs. The less energy used, the easier it should be to meet energy needs through renewable energy, and fewer RECs will need to be purchased.
	Broadband capacity extension	0	Not applicable	
	Low-income programs (lost revenue recovery)	0	Not applicable	Conversely, the more energy efficiency programs assist low-income households, the less these households will need bill assistance through PIPP and other bill assistance programs.
	Capital projects (e.g., combined cycle gas projects, offshore wind, solar, distribution system undergrounding, distribution grid transformation, nuclear life extension, etc.)	-	The incentive to build capital projects to earn profit creates a very strong disincentive to maximize energy efficiency and demand response. This is especially strong for large, expensive new generation.	Though the ROE for op-ex and cap-ex have been equalized for energy efficiency programs, it does not appear to be enough to overcome the strong preference for building out new generation over maximizing energy efficiency.
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	Conversely, increasing EE and demand response will lower energy demand, which should lower total transmission costs.
Performance adjustments and measurement	ROE adjustment mechanisms			
	Energy efficiency savings target (ROE adder applied to DSN operating expenses)	+	The target has resulted in increased energy savings through energy efficiency programs at IOUs compared to before the targets began in 2022.	See note above for capital projects.
	Performance mechanisms (e.g., metrics, scorecards, PIMS), including Case No. PUR-2023-00210 (Separate SCC PBR Case)	0		Though operating efficiency of the generators are part of the proposed metrics in the draft for schedule 49 (page 53), this worksheet is considering the performance area of energy efficiency achieved for *customers*.
Other ratemaking and regulatory features	IRPs	+/-	Dominion's most recent IRP did take energy the Energy Efficiency Resource Standard into account when projecting energy demand. However, it projected no further investment in energy conservation or demand response. (see Appendix 3C-7: Construction Forecast)	Consider that an IRP could do much more to test the impact of increased energy efficiency on reducing the need to build out other resources. Just as there are sensitivity tests and "book ends" for other factors, there can be a lower end and a higher end for energy efficiency achievement in IRP scenarios. The higher end could be the full EE potential without cost caps,
	Certificates of Public Need and Necessity (CPCN)	+	§ 56-585.1.A.6 "A utility seeking approval to construct or purchase a generating facility that emits carbon dioxide shall demonstrate that it has already met the energy savings goals identified in § 56-596.2 and that the identified need cannot be met more affordably through the deployment or utilization of demand-side resources or energy storage resources and that it has considered and weighed alternative options, including third-party market alternatives, in its selection process." Unless the SCC determines that the generating facility is needed for reliability	
	Rate design (including universal service fee)			Consider a rate design that includes decoupling to remove the disincentive that COSR contains against energy efficiency, peak shaving, operational efficiency, and other demand side management.
	Pilot programs	+/0	§ 56-585.1 states that 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.	In practice, I do not believe this option has been utilized, at least not much, so the opportunity to innovate new effective energy efficiency programs remains largely untapped. That's why I gave it a +/0 rating instead of a + rating. A question worth exploring might be why this opportunity has not been pursued fully.

Overall Assessment

Overall, does the existing regulatory framework support achievement of the identified outcome?		Discussion
+ (YES) incents achievement		
0 (NO IMPACT)		
- (NO) disincentivizes achievement	-	While there are elements like equalizing the ROE for the opex of EE programs of the EERS, overall the existing regulatory framework does not favor maximizing energy efficiency and demand side management. Instead, it overwhelmingly favors capital projects because these projects are bigger, resulting in larger sums of profit. Even if some of these projects are renewable energy or zero-carbon, we need a regulatory structure that first incentivizes utilities to help customers lower energy consumption and to make the whole energy system as efficient as possible. The current regulatory structure does not support this systemic approach.