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**

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| --- | --- | --- |
| **Outcome** | What regulatory *outcome* or *performance area* does this assessment consider? | Environmental justice and equityIn particular compliance with the Virginia Clan Economy Act’s (spirit and intent)It is understood that the legislature gave a “reliability exit” but the intent is to implement all items. |
| **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 |  | Rate reviews appear to allow whatever was approved in the Integrated Resource Plan (IRP). No attempt – that I am aware of is made to incentivize or penalize. Because the IRP is allowed to avoid full compliance with VCEA, the rate review misses the opportunity – in my opinion | Rate incentives (or penalties) could be used at the rate review to address the level of fullness in compliance with the VCEA that the utility proposes for future.  |
| Backward-looking (w/ earnings adjustments)  |  | Same as above. The process appears to miss the opportunity. | Rate incentives (or penalties) could be used at the rate review to address the level of fullness in compliance with the VCEA that the utility achieved in the last period.  |
| **ROE Determinations** |  |  |  |  |
| **Rate Adjustment Clauses (i.e., trackers)** | RACs overall (general assessment of the use of RACs) |  | RACs address specific capitalized items. In general, all of these items should be placed into the base rate. There is no improvement for customers in utilizing RACs. However, since RACs are used, and they do exist, it is worth noting that there is also no incentivization for full VCEA compliance, or there would be a RAC, or series of RACs that would be proposed to meet the VCEA. Currently there are several RACs that address renewable and clean energy, but they are insufficient in volume to address all VCEA needs. When one includes the estimated and expected demand growth (5% increase per year, for the next 10 years- or more) the RACs that exist become so small as to almost make no impact at all.  | The Commonwealth has to decide if the VCEA and if clean and renewable energy really matters. The commonwealth will need to decide if ratepayers will cover the cost, or if they will be subsidized in some way by government. It is clear that investors in utilities and the utilities themselves cannot bear the costs under the existing structure – or there would be at least one IRP option that attempts to seriously address the full measure of the VCEA. Unfortunately, affordability and cost to the consumer will skyrocket without subsidization. Frankly, even subsidization would lead to significant tax increases. I am not sure there is a way to address the VCEA as well as focus on cost and affordability. That being said, we need to consider trying harder. Since there is no special RAC program approved to address full implementation of VCEA, there is a disincentivization (based on simple economics) for the utility to address VCEA needs through RACs. |
| Fuel Cost Recovery |  -  | The only fuel that can be considered to meet the needs of full compliance with VCEA requirements is nuclear fuel. Having a full pass-through cost recovery for fossil fuels, in fact even allowing a utility to securitized debt and pass financing costs on to customers will support the financial stability of the utility, but not incentivize, nor penalize for VCEA compliance. Ultimately, retirement of fossil fuel generation is required. Full fuel cost (including financing costs) creates a disincentive for utilities. They will be made whole for non-compliance.  | The continued burning of fossil fuels is fairly well known and understood to be one of the root causes of climate change and global warming. This is not a disputed policy item in Virginia. The VCEA established the need to reduce and ultimately eliminate the burning of fossil fuels as a legislative priority. The VCEA did recognize reliability as a higher public benefit. However, it is not helpful if humanity can reliably be expected to continue to cause the diminishment of our own environment. Yes, reliability matters. Yes, affordability matters. However, the opportunity to consider fuel costs, fuel use and the continued impact of fossil fuels is missed as far as performance-based rate making goes. If fuel use is reducing at the gross level, or if fuel used is reduced per unit generated, why not provide an incentive for that? The answer, of course, is that the amount is already too much. This is how over a billion dollars was accrued as debt owed to the utility, and how this amount ended up being sold to a third-party securitization company. Rate payers can only amortize expenses so far, there will ultimately be a reckoning. Virginia will need to consider how it will address this, because what we are doing now isn’t working.  |
| Purchased power |  |  |  |
| Demand response program costs |  |  |  |
| RPS compliance costs |  |  |  |
| Broadband capacity extension |  |  |  |
| Low-income programs (lost revenue recovery) |  |  |  |
| 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 |  |  |  |
| **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) |  |  |  |
| **Other ratemaking and regulatory features** | IRPs |  |  |  |
| Certificates of Public Need and Necessity (CPCN) |  |  |  |
| Rate design (including universal service fee) |  |  |  |
| Pilot programs |  |  |  |

Overall Assessment

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