Virginia Regulatory Assessment Template

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[This document will be reviewed during Stakeholder Meeting #4 and does not need to be completed before that]

**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 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? | **Savings maximization from energy efficiency and exceedance of statutorily required savings levels** |
| **Do the existing regulatory mechanisms and program 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 |  |  |
| Backwards-looking (w/ earnings adjustments)  | 0 |  |  |
| **ROE Determinations** |  | - |  | Electric utilities are not subject to the revenue adjustment decoupling mechanism that can help to address the throughput incentive that disincentivizes reducing demand through energy efficiency initiatives. When authorized revenue and profit are set, electric utilities are still driven to increase sales to create profit within range of those revenue requirements even with current earnings sharing requirements. The existing throughput incentive disincentivizes the maximization of savings for customers through energy efficiency initiatives.  |
| **Rate Adjustment Clauses (i.e., trackers)** | RACs overall (general assessment of the use of RACs) | - | RACs provide accelerated recovery of various capital and program costs that would otherwise go into the base rates. Over the last several years since re-regulation in the state, “riders”, “cost trackers” or “RACs” as they are referred to are main drivers of energy consumers bill increases and “drastically” limit the amount of savings customers would otherwise be able to achieve through individual or utility-related energy efficiency investments for lowering energy costs and decarbonization. As discussed by SCC, basically 50% of utility costs are financed through these on-bill surcharges, which are passed onto customers so utilities can have accelerated recovery their costs of service with a profit. There is a much more positive financial incentive for utilities to seek financing capital projects through RACs to meet energy demand than compared to the financial performance incentives included in the states EERS. |  To ensure that customers are able to maximize the energy efficiency measures at their disposal to reduce their energy costs and support decarbonization by reducing overall demand - it is critical for the SCC to reduce the number of RACs that electric utilities have accumulated and roll those RACs into base rates. The SCC should also consider a strong threshold with very specific criteria for the approval of any proposed RACs going-forward to abate energy savings provided by energy efficiency or other alternative and performance regulations being undercut or completely diminished by status quo expenditure of numerous capital expenses through generation RACs between utility rate cases. Some RAC reform policy approaches include, but are not limited to limitations on the rate impact of RACs, filling and legislative requirements, expectations to conduct consumer impact analyses per RAC, on-bill rider comparisons, retiring approved RACs into base rates, special evaluation procedures for RACs, as well as rate analyst publications from the utility regulator. |
| Fuel cost recovery | - | Fuel costs are 100% passed through to customers, there are not any positive incentives or negative disincentives for utilities to make more cost-effective fuel investments for power generation facilities or utilize energy efficiency investments to help meet energy demand with more financial prudence.  | Fuel cost sharing between customers and electric utilities is an approach some states utilize to encourage utilities to make more cost-effective and climate-sensitive investments in fuel.  |
| Purchased power | 0/-/+ | Beyond statutory procurement requirements for purchased power that is renewable (not fuel-based) and energy efficiency investments, purchased power and energy efficiency investments are in competition as resources for meeting existing or forecasted growth in energy demand.  |  |
| Demand response program costs | 0 |  | Demand response program investments is another tool that helps reduce energy demand more affordably than investing capital expenditures and accelerates the decarbonization of the grid by reducing the need to construct peaker plants as backup energy resources for high-demand times.  |
| RPS compliance costs | 0 | Beyond statutory procurement requirements for purchased power that is renewable and energy efficiency investments, the resources are in some ways in competition with each other for meeting existing or forecasted growth in energy demand, such as within the context of integrated resource planning.  | Purchasing RECs is a key component of the state’s mandatory RPS requirements. Both resources support the decarbonization of the grid and are historically more financially prudent for customers than building new capital energy resources esp. through RACs. |
| Broadband capacity extension | 0 |  |  |
| Low-income programs (lost revenue recovery) | 0/+ | The PIPP program does provide an opportunity for electric utilities to provide energy efficiency savings for low-income customers – though the program does provide additional resources for these investments, it has not deeply maximized energy efficiency savings for low-income customers such that there are progressive increases in reductions in energy burdens for these customers despite the deep need.  |  |
| Capital projects (e.g., combined cycle gas projects, offshore wind, solar, distribution system undergrounding, distribution grid transformation, nuclear life extension, etc.) | - | RACs provide accelerated recovery of various capital and program costs that would otherwise go into the base rates. Over the last several years since re-regulation in the state, “riders”, “cost trackers” or “RACs” as they are referred to are main drivers of energy consumers bill increases and “drastically” limit the amount of savings customers would otherwise be able to achieve through individual or utility-related energy efficiency investments for lowering energy costs and decarbonization. As discussed by SCC, basically 50% of utility costs are financed through these on-bill surcharges, which are passed onto customers so utilities can recover their costs of service with a profit. There is a much more positive financial incentive for utilities to seek financing capital projects through RACs to meet energy demand than compared to the financial performance incentives included in the states EERS. |  To ensure that customers are able to maximize the energy efficiency measures at their disposal to reduce their energy costs and support decarbonization by reducing overall demand - it is critical for the SCC to reduce the number of RACs that electric utilities have accumulated and roll those RACs into base rates. The SCC should also consider strong threshold with very specific criteria for the approval of any proposed RACs going-forward to abate energy savings provided by energy efficiency or other alternative and performance regulations being undercut or completely diminished by status quo expenditure of numerous capital expenses through generation RACs between utility rate cases. Some RAC reform policy approaches include, but are not limited to limitations on the rate impact of RACs, filling and legislative requirements, expectations to conduct consumer impact analyses per RAC, on-bill rider comparisons, retiring approved RACs into base rates, special evaluation procedures for RACs, as well as rate analyst publications from the utility regulator. |
| **Other trackers** (user choice to select additional trackers used in Virginia ratemaking 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 |  |  |
| **Performance adjustments and measurement** | ROE adjustment mechanisms | 0 |  | Electric utilities are not subject to the revenue adjustment decoupling mechanism that can help to address the throughput incentive that disincentivizes reducing demand through energy efficiency initiatives. When authorized revenue and profit are set, electric utilities are still driven to increase sales to create profit within range of those revenue requirements even with current earnings sharing requirements. The existing throughput incentive disincentivizes the maximization of savings for customers through energy efficiency initiatives.  |
| Energy efficiency savings target (ROE adder applied to DSN operating expenses) | 0 | The existing EERS has created a statutory requirement for electric utilities to increase the amount of energy efficiency savings it provides to customers and some savings have matriculated to customers from these programs; however, under the existing regulatory framework the utility has exceedingly underperformed under the EERS. For example, for a utility of its scale, Dominion Energy has underperformed under the EERS and failed to meet the required EERS targets. Neither the positive performance incentive (ROE adder) or the disincentive for underperformance that bars capital investments in new power plants are sufficient for making the electric utilities simply meet the EERS targets let alone supersede them.  |  |
| Performance mechanisms (e.g., metrics, scorecards, PIMS), including Case No. PUR-2023-00210 | 0 | Under the existing framework, the existing ROE adder applied to DSM operating expenses is not sufficient to incentive the outcome of maximizing energy efficiency savings – utilities particularly Dominion Energy, have not met and nor are exceeding energy efficiency target requirements.  |  |
| **Other ratemaking and regulatory features** | IRPs | -/+ | Depending on how electric utilities forecast demand and propose to meet existing and forecasted demand in their integrated resource plans, energy efficiency can be back seated as a priority resource to meet energy demands when laid alongside other resources that generate more revenue and profit for electric utilities and do not undercut electric sales.  |  |
| Certificates of Public Need and Necessity (CPCN) | - | There is the existing EERS negative disincentive barring the construction of new power plants (i.e.; attaining CPCN from SCC). This disincentive, which requires that in the instance that electric utilities do not meet energy efficiency they cannot construct new facilities, is not strong enough to encourage utilities to even meet the EERS targets, let alone exceed them. The electric utilities do not respond to this CPCN negative performance mechanism with greater investments in energy efficiency and still proceeded to go after a new CPCN recently for a power plant given the threshold for CPCN being very loosely/broadly defined as “reliability” . This CPCN negative performance mechanism being a fairly low threshold to overcome in this way disincentivizes energy efficiency investments.  |  |
| Rate design (including universal service fee) | 0 |  | Electric utilities are not subject to the revenue adjustment decoupling mechanism that can help to address the throughput incentive that disincentivizes reducing demand through energy efficiency initiatives. When authorized revenue and profit are set, electric utilities are still driven to increase sales to create more profit earnings within range of those revenue requirements even with current earnings sharing requirements. This disincentivizes the maximization of savings for customers through energy efficiency initiatives. There should be consideration of decoupling mechanism for electric utilities and the approaches to rate design therein to remove the disincentive for utilities to create more energy efficiency savings for customers.  |
| Pilot programs | +/-/0 |  |  |

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 | - The performance of utilities related to maximizing savings for customers and meeting decarbonization goals through EERS targets and related DSM programs that we have in Virginia are undercut by the throughput incentive, the low threshold for approving new RACs and their negative impact on cost savings for customers, the failure of existing EERS performance incentives and disincentives to encourage electric utility action and some of the other existing regulatory mechanisms and programs I highlighted above. So overall, the existing regulatory framework largely disincentivizes investments in energy efficiency leaving statutory EERS targets presently unmet and therefore insufficient savings for customers and emission reductions decarbonization.  |  |