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**STATE CORPORATION COMMISSION**
**DIVISION OF UTILITY ACCOUNTING AND FINANCE**

January 27, 2023

The Honorable Richard C. Sullivan, Jr.
Pocahontas Building, Room E220
900 East Main Street
Richmond, Virginia 23219

The Honorable R. Lee Ware
Pocahontas Building, Room E308
900 East Main Street
Richmond, Virginia 23219

Dear Delegate Sullivan and Delegate Ware:

I am writing on behalf of the State Corporation Commission ("Commission") Staff in response to your letter dated January 25, 2023. In your letter you asked for responses to questions regarding potential legislation during the 2023 General Assembly Session. The Staff's answers are below.

1. Based on the latest version of the bill (HB 1770/SB 1265), what would be the revised minimum ROE the Commission would be required to approve for Dominion?

   *Answer: The minimum Return on Equity (ROE) using the peer group below would be 10.07% as reflected on the table below:*

| *Company* | *Authorized ROE* |
|---|---|
| *Alabama Power Company* | *11.53%* |
| *Florida Power and Light Company* | *10.80%* |
| *Georgia Power* | *10.50%* |
| *Entergy Mississippi* | *10.07%* |
| *Tampa Electric Company* | *9.95%* |
| *Duke Energy Florida* | *9.85%* |
| *Duke Energy Carolinas* | *9.59%* |
| *Duke Energy Progress* | *9.57%* |
| *Louisville Gas and Electric Company* | *9.43%* |
| *Kentucky Utilities* | *9.43%* |
| ***Average*** | ***10.07%*** |

2. Is it true that, in Dominion's most recent base rate review, the Commission Staff determined that an ROE of 8.7% would allow Dominion to attract the required capital on reasonable terms and fulfill its public service obligations?

   *Answer: Commission Staff's analyses presented in prefiled testimony in Case No. PUR-2021-00058 supported a market cost of equity for Dominion Energy Virginia (Dominion) of 8.70%.*

3. What would be the impact of the revised ROE, as required by the bill, on Dominion's current and planned capital projects over the anticipated service lives for such projects, including capital projects recovered through base rates, RACs, and/or other cost recovery mechanisms?

   *Answer: Using currently-available projected rate adjustment clause (RAC) data for the period 2023 to 2040 (the period for which Staff has compiled the necessary data for this question) and assuming base rate rate base remains flat during that period, the impact of an ROE change from 9.35% to 10.07% for that period is a Virginia-jurisdictional revenue requirement increase of $2.0 billion.*

   Please calculate this impact in both total revenue requirement and an average residential customer monthly bill.

   *Answer: The monthly bill impact for a typical residential customer using 1,000 kWh per month varies by year, but ranges between approximately $1.50 to $2.50 per month.*

4. What is the total projected lifetime revenue requirement and profit for all of Dominion's previously approved and projected VCEA project expenditures?

   *Answer: The total projected lifetime gross (i.e., excluding energy, capacity, and renewable energy certificate (REC) benefits) Virginia-jurisdictional revenue requirement for all of Dominion's previously-approved and currently-projected VCEA projects is $83.5 billion based on, among other things, a 9.35% ROE. The corresponding projected profit is $6.8 billion.*

*The benefits referred to above reduce this gross revenue requirement to $60.1 billion. The projected profit of $6.8 billion is unaffected by these benefits.*

What would be the impact of a higher ROE, as required by the bill, on the total lifetime revenue requirement and profit associated with approved and projected VCEA expenditures?

*Answer: An ROE of 10.07% rather than 9.35% would increase the total projected lifetime Virginia-jurisdictional revenue requirement by $689 million and the profit by $520 million.*

5. The following questions refer to Dominion's offshore wind project, which the Commission approved in Case No. PUR-2021-00142.

a. What is the current projected lifetime profit for Dominion's offshore wind project using Dominion's current ROE?

   *Answer: In its update application pending before the Commission in Case No. PUR-2022-00187 (Rider OSW Application), Dominion calculates a Virginia-jurisdictional lifetime profit of $5.458 billion.*

b. What would be the additional lifetime profit for the offshore wind project with the new ROE as required by the bill?

   *Answer: Using a 10.07% ROE as calculated in response to question number 1 above, Staff calculates a Virginia-jurisdictional lifetime profit of $5.878 billion based on the information provided in Dominion's Rider OSW Application. This is an additional profit of $420 million.*

c. What is the total amount that will be charged to ratepayers (i.e., the total lifetime revenue requirement) for the offshore wind project using Dominion's current ROE?

   *Answer: In its Rider OSW Application, Dominion calculates a gross Virginia-jurisdictional lifetime revenue requirement of $21.9 billion. Including projected offsetting energy, capacity, and REC benefits, the net Virginia-jurisdictional lifetime revenue requirement is $5.544 billion.*

d. What would be the impact of a higher ROE, as required by the bill, on the total lifetime revenue requirement?

   *Answer: Using a 10.07% ROE as calculated in response to question number 1 above instead of 9.35%, Staff calculates a Virginia-jurisdictional lifetime revenue requirement increase of $561 million.*

6. Our understanding is that the rider recovering costs associated with the Virginia City Hybrid Energy Center is the largest generation RAC in terms of customer bill impacts. What impact would a higher ROE, as required by the bill, have on the total lifetime requirement for this RAC and customer bills?

   *Answer: Based on Dominion's Rider S application in Case No. PUR-2021-00114, increasing the ROE from the currently-approved 9.35% to 10.07% would increase the Rider S lifetime Virginia-jurisdictional revenue requirement by approximately $99 million.*

   *The monthly bill impact for a typical residential customer using 1,000 kWh per month varies by year, but ranges between approximately $0.02 to $0.09 per month.*

7. What impact would a higher ROE, as required by the bill, have on the total lifetime requirement of the nuclear relicensing projects recovered through Rider SNA?

   *Answer: Based on Dominion's pending Rider SNA application in Case No. PUR-2022-00162, increasing the ROE from the currently-approved 9.35% to 10.07% would increase the Rider SNA lifetime Virginia-jurisdictional revenue requirement by approximately $211 million.*

   What would be the impact on customers' bills?

   *Answer: The monthly bill impact for a typical residential customer using 1,000 kWh per month varies by year, but ranges between approximately $0.05 to $0.25 per month.*

8. Please quantify the total annual revenue requirement impact of the higher ROE, as required by the bill, including the impact to Dominion's total base rate and RAC revenue requirements.

   *Answer: A change in ROE from 9.35% to 10.07% would increase the total current annual Virginia-jurisdictional revenue requirement for base rates and RACs by approximately $97 million.*

   Assuming that the higher revenue requirement results in an immediate increase in total rates, what would be the impact for residential customer bills?

   *Answer: A change in ROE from 9.35% to 10.07% would increase the base rate component of a residential customer bill, for a typical customer using 1,000 kWh/per month, by approximately $0.90 per month. The RAC component for the same residential customer would increase by approximately $0.85 per month. The total typical residential customer bill impact would be the sum of these, or $1.75.*

   *Note the base rate and RAC breakdown above incorporates the proposed legislation's requirement to roll-in to base rates at least $300 million of annual RAC revenue. The total $1.75 is unaffected by this roll-in.*

9. Theoretically, what would be the effect on Dominion's base rates and customer bills if the current base rates were to increase by $300 million and Dominion's ROE increased to 10.07%?

   *Answer: A theoretical base rate increase of $300 million would increase a typical residential customer bill by approximately $6 to $7 per month. An ROE increase from 9.35% to 10.07% would increase a typical residential customer bill for base rates by approximately $0.90 per month. The total impact would be the sum of these, or $6.90 to 7.90.*

If you need additional assistance, I am available to provide answers to any technical questions that you may have.

Sincerely,

Kimberly B. Pate

Kimberly B. Pate
Director – Utility Accounting and Finance