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STATE CORPORATION COMMISSION
DIVISION OF UTILITY ACCOUNTING AND FINANCE

February 10, 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 February 9, 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. SB1265, as amended, provides that moving $350 million of costs currently recovered through Dominion's riders to its base rates "shall not serve as the basis for an increase in [Dominion's base rates] in its 2023 biennial proceeding." Please answer the following questions regarding this language.

   (a) Does this language preclude Dominion from seeking a base rate increase in 2023 based on other factors, such as a higher ROE?

   Answer: Staff does not believe that it does.

   (b) Is it true that Dominion could seek a base rate increase to recover the $350 million under other laws and regulations, such as Va. Code §§ 56-585.1(B), 56-245, and/or the Commission's rate case rules?

Answer: Staff believes so, pursuant to the provisions of those sections.

(c) Could moving the $350 million of rider costs to base rates result in reduced customer refunds as part of the 2023 biennial review?

Answer: It would reduce earnings and may reduce the potential for customer refunds.

(d) Could moving the $350 million of rider costs to base rates cause a base rate increase in the 2025 biennial review?

Answer: Staff does not have the information necessary to answer this question.

(e) Does Dominion need the explicit mandate in this law to request authorization to roll expenses recovered through RACs into the base rate?

Answer: Staff does not believe so.

Has the utility requested this in the past?

Answer: To the extent "roll expenses recovered through RACs into the base rate" refers to a permanent incorporation of a RAC into base rates, Staff is not aware of such a request.

Please provide any other context or implications of this language that we should be aware of.

Answer: None.

2. Our understanding is that if Dominion moves $350 million of rider charges to its base rates, that means one of two things:

a. That Dominion's base rates are recovering money above the utility's authorized rate of return by $350 million or more (i.e., so as to absorb these additional costs without the need for a base rate increase); or

b. If Dominion's base rates are not currently too high, base rates will need to be increased to accommodate the additional $350 million in costs.

Please confirm our understanding or explain the possible short and long-term implications of rolling $350 million into the base rate.

Answer: Staff does not have the information necessary to answer this questions.

3. SB 1265, as amended, states that Dominion's rate of return on common equity could be set up to 150 basis points higher than the average of a group of "Peer" utilities. If Dominion's rate of return were set 150 basis points higher than such average, all things being equal:

a. What would be the revised ROE for Dominion Energy?

Answer: 11.57%.

b. What would be the impact of this revised ROE 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?

Please calculate this impact

1) in both total revenue requirement,

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 11.57% for that period is a Virginia-jurisdictional revenue requirement increase of $6.2 billion.

2) for an average residential customer monthly bill, and

Answer: The monthly bill impact for a typical residential customer using 1,000 kWh per month varies by year, but the increase ranges between approximately $5.00 to $7.25 per month.

3) in the accumulated revenue requirement until December 31, 2027.

Answer: Using currently-available projected RAC data for the period 2023 to 2027 and assuming base rate rate base remains flat during that period, the impact of an ROE change from 9.35% to 11.57% for that period is a Virginia-jurisdictional revenue requirement increase of $1.9 billion.

c. What would be the impact of this revised ROE on the total lifetime revenue requirement of the recently approved offshore wind project?

Answer: Using an 11.57% ROE instead of 9.35%, Staff calculates a Virginia-jurisdictional lifetime revenue requirement increase of $1.7 billion.

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 the increase ranges between approximately $0.00 to $2.00 per month.

d. What impact would this revised ROE have on the total lifetime requirement of the nuclear relicensing projects recovered through Rider SNA?

Answer: Using an 11.57% ROE instead of 9.35%, Staff calculates a Virginia-jurisdictional lifetime revenue requirement increase of $651 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 the increase ranges between approximately $0.05 to $0.70 per month.

4. The Commission has stated that based on the minimum rate of return established by SB 1265, and the 70 basis points earnings collar, this legislation could authorize Dominion to earn a total return as high as 10.77% before the company is required to refund customers for any overearnings. Please quantify the difference, in total revenue requirement, between a 10.77% earned return and a 9.35% return.

   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 10.77% for that period is a Virginia-jurisdictional revenue requirement increase of $4.0 billion.

   Please also quantify the accumulated difference until December 31, 2027.

   Answer: Using currently-available projected RAC data for the period 2023 to 2027 and assuming base rate rate base remains flat during that period, the impact of an ROE change from 9.35% to 10.77% for that period is a Virginia-jurisdictional revenue requirement increase of $1.2 billion.

5. We are aware that, in SCC Case No. PUR-2022-00070, Dominion has requested to "reinstate" the rider for RGGI compliance costs. On the other hand, SB 1265 compels Dominion to roll into the base rate $350 million in costs currently recovered through riders. If Dominion's request to reinstate the RGGI rider is approved and SB 1265 becomes law, could Dominion select these RGGI rider costs for combination with its base rates?

   Answer: Staff believes such combination may be permissible.

   Under this scenario, what would be the net impact for consumers?

   Answer: Staff does not have the information necessary to answer this question.

6. Under existing law, does the Commission have the authority to spread the costs of fossil fuel expenses over several years to lessen the impact on customer rates?

   Answer: Code § 56-249.6 provides: Each electric utility described in subsection B shall submit annually to the Commission its estimate of fuel costs, including the cost of purchased power, for successive 12-month periods beginning on July 1, 2007, and each July 1 thereafter. Upon investigation of such estimates and hearings in accordance with law, the Commission shall direct each such utility to place in effect tariff provisions designed to recover the fuel costs determined by the Commission to be appropriate for such periods, adjusted for any over-recovery or under-recovery of fuel costs previously incurred;…

Has the Commission approved settlements with reduced financing costs?

Answer: Yes.

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