COMMONWEALTH OF VIRGINIA
VIRGINIA DEPARTMENT OF ENERGY
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May 16, 2025

The State Corporation Commission
Commissioner Towell
Commissioner Hudson
Commissioner Bagot
P.O. Box 1197
Richmond, VA 23218

Dear Commissioner Towell, Commissioner Hudson, and Commissioner Bagot,

The Virginia Department of Energy was tasked with conducting the discussions and report by House Joint Resolution No. 30[1] / Senate Joint Resolution No. 47.

Although it was our responsibility to conduct the meetings, the report may contain positions that are not espoused by this agency, but we wanted to fairly convey the opinions of those designated to participate as indicated in the resolution. The discussion topics were guided by stakeholder preferences.

It is the position of this agency that all decisions related to power generation in the commonwealth should be primarily judged by its impact on ratepayer affordability and grid reliability. Furthermore, we find it unrealistic and short-sighted to implement any regulatory or policy structures based solely around the mandates of the Virginia Clean Economy Act. By all models, VCEA is unable to meet Virginia's growing energy demand.

When VCEA was written, the anticipated annual energy demand growth rate was anticipated to be 1%-2%. Today, we are facing a 6.5% growth rate, which cannot be met by the phaseout of existing baseload power generation and VCEA's unrealistic amounts of mandated intermittent power generation. VCEA was drafted, amended multiple times, and adopted by the General Assembly all during its 60-day General Assembly session while deliberating and voting on an additional 2,000 bills. It's clear that the lack time to do the appropriate amount of modeling and analysis on such an important piece of legislation has put Virginia between the proverbial rock and hard place, having to choose between energy affordability and reliability and compliance with VCEA mandates. That lack of attention to long-term costs to ratepayers is why we are facing $5.5 billion in ratepayer costs over the next decade from renewable portfolio standard (RPS) compliance alone.

Understanding that the State Corporation Commission must abide by existing law, our ask would be that the SCC consider regulatory and policy structures that prioritize ratepayer affordability and grid reliability over long-term VCEA compliance, recognizing that the General Assembly will be forced to adopt a less stringent set of VCEA mandates over the next couple of years.

Lastly, although the stakeholders did not elect to use their limited time to address cyber and physical security of the grid, emergency response and safety, or resiliency of the grid, which were listed as performance areas for consideration in the resolution, they are of great concern to this agency and should be prioritized over and above some of the stakeholder objectives relayed in this report.

Sincerely,

Glenn R. Davis
Director

REPORT TO THE STATE CORPORATION COMMISSION OF VIRGINIA

PERFORMANCE-BASED RATEMAKING (PBR) STUDY STAKEHOLDER REPORT

Submitted by the Virginia Department of Energy on May 16, 2025.

VIRGINIA Energy

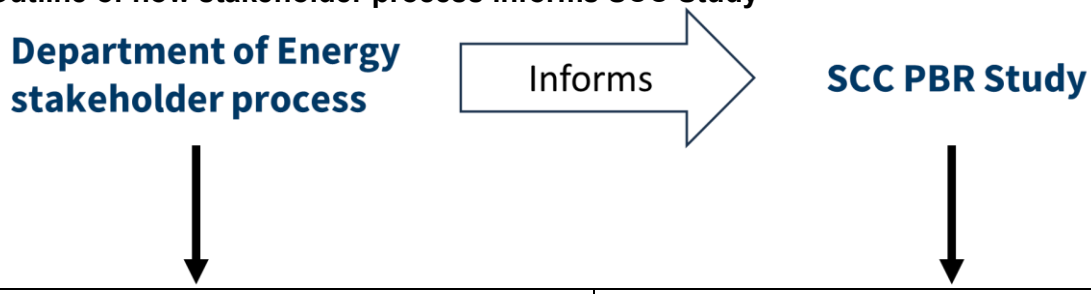
Table of Contents:

Introduction:

Pursuant to House Joint Resolution No. 301 / Senate Joint Resolution No. 472, Virginia Department of Energy submits this report on the stakeholder proceedings conducted as part of the State Corporation Commission's study on performance-based regulatory tools for investor-owned utilities:

In conducting its study, the Commission shall gather comments and include the input and recommendations of a stakeholder process that shall be developed by the Department of Energy (the Department). The Department shall create and facilitate such stakeholder process and shall include as stakeholders electric utilities in the Commonwealth, competitive service suppliers in the Commonwealth, representatives of all customer classes, Commission staff, the Office of the Attorney General, environmental organizations, consumer protection groups, and local communities. Such stakeholder process shall engage stakeholders in the Commission's study of alternative regulatory tools and other jurisdictions' experiences, successes, and failures in implementing such tools, and such process shall lead to the development and proposal of potential reforms to the current regulatory framework of investor-owned electric utilities in the Commonwealth that shall inform the Commission's final report. The activities of such stakeholder group shall include (A) facilitated workshops and presentations on alternative regulatory tools, (B) opportunities for open dialogue and meaningful input, (C) access to the information and other resources necessary for robust engagement, and (D) the opportunity to respond to proposals, as appropriate.

Outline of how stakeholder process informs SCC Study



• Understand stakeholder perspectives and obtain stakeholder feedback regarding: • The potential of PBR to assist in electric IOU regulation in Virginia • Potential misalignments in the current regulatory framework that PBR could correct • Alternative regulatory tools for correcting these misalignments (e.g., scorecards, PIMs, etc.)	• Use findings from stakeholder process to inform study • Conduct additional supplementary research • Include consideration for a range of performance areas (e.g., reliability, resilience, affordability, customer service, DER integration, etc.)

[1] HJ30 (2024)
[2] SJ47 (2024)

The stakeholder process is designed to inform the overall SCC's study as described in the resolution. This report is intended to summarize the proceedings of the stakeholder process and describe the group's recommendations to the Commission. However, the full record of the stakeholder process, including presentations, surveys, and comment letters, is also being submitted, and the Commission should consider the full record when incorporating stakeholder considerations and perspectives into its final report.[3] **The discussions and recommendations contained in this report reflect the views of some members of the stakeholder group and are not necessarily representative of any individual stakeholder's, the majority of the members of the stakeholder group, or the Virginia Department of Energy's positions.** The stakeholder positions and survey results contained in this report do not necessarily represent the final positions of a stakeholder on this subject. While the stakeholder process did consider affordability for customers as it related to the PBR tools under consideration, it did not directly analyze the potential rate impacts of the various PBR tools discussed, and some stakeholders have specifically expressed that their positions are reserved until knowing the rate impacts of each proposal, if any.

Goals outlined in HJ30/SJ47:

1. Evaluate the potential of performance-based regulatory tools and alternative regulatory tools to modernize the legal or regulatory framework
2. Consider the long-term financial stability of investor-owned utilities and balance the interests of all stakeholders for the benefit of the Commonwealth.

Overview of goals discussed by the group

1. In addition to the directions from the study, the stakeholder group identified their own goals for the process, which were summarized into these three points:
2. Understand the current framework and identify the specific problems that could be addressed with alternative tools.
3. Conduct balanced consideration of the benefits and drawbacks of alternative tools over the long term.
4. Prioritize areas for recommendation or consideration to the SCC.

Department of Energy Stakeholder Process

Activities required for the stakeholder process

1. Facilitate workshops and presentations on alternative regulatory tools,
2. Provide opportunities for open dialogue and meaningful input
3. Provide access to the information and other resources necessary for robust engagement, and
4. Provide opportunity to respond to proposals, as appropriate.

[3] The full record of the stakeholder process can also be accessed at: https://www.energy.virginia.gov/public/Stakeholder_Process.shtml

Performance areas considered in the study:

1. Reliability and resiliency;
2. Affordability for customers;
3. Emergency response and safety;
4. Cost-efficient utility investments and operations;
5. Customer service;
6. Savings maximization from energy efficiency and exceedance of statutorily required savings levels;
7. Peak-demand reductions;
8. Integration of distributed energy resources, including the quality and timeliness of interconnection of customer-owned and third-party-owned resources;
9. Environmental justice and equity;
10. Beneficial electrification, including in the transportation and buildings sectors;
11. Maximization of available federal funding;
12. Decarbonization of the Commonwealth's electricity sector;
13. Cyber and physical security of the grid;
14. 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; and
15. Any other topics deemed relevant and useful to the Commission in its review of performance areas.

PBR tools considered in the study:

- Reporting metrics
- Scorecards
- Performance-incentive mechanisms
- Decoupling electricity sales from utility revenues
- Multiyear rate plans
- Fuel cost-sharing mechanisms
- Best practices for all-source competitive procurement
- Strategies to equalize financial incentives to deploy capital expenditures and operating expenses
- Other information deemed relevant or helpful by the commission in its review

Stakeholder Process Overview:

PBR Study Timeline:

1. The deadline for the department to submit a report on the Stakeholder process to the commission is *9th May 2025*.
2. SCC will report its findings and recommendations concerning the PBR Study to the Governor and the General Assembly on *October 15, 2025*.
3. SCC and DOE present their findings and recommendations in a public meeting to the Commission on Electric Utility Regulation by *November 15, 2025*
4. Complete report due to the General Assembly – First Day of the 2026 General Assembly Session

Summary of the stakeholder proceedings:

Nine meetings of the stakeholder group were conducted between October 28, 2024, and May 09, 2025. Except for stakeholder meeting 1, all the meetings were conducted via Microsoft Teams. Stakeholder Meeting 1 was conducted in person in the Patrick Henry Building, Richmond. As directed by the legislation, the proceedings included a wide range of stakeholders, including electric utilities in the commonwealth, competitive service suppliers in the commonwealth, representatives of all customer classes, Commission staff, the Office of the Attorney General, environmental organizations, consumer protection groups, and local communities. Throughout the period, 37 organizations participated in various formats, including stakeholder meetings, comments, surveys, and assessments. The materials produced during the proceedings were published on the department's website[4].

Stakeholder Groups	
Appalachian Power	Rocky Mountain Institute (RMI)
Appalachian Voices	Secure Solar Futures
Chesapeake Climate Action Network	Sierra Club Virginia Chapter
Clean Virginia	Solar United Neighbors
Climate Action Alliance of the Valley	Southern Environmental Law Center VA
Commission on Electric Utility Regulation	State Corporate Commission
Current Energy Group	The Nature Conservancy
Data Center Coalition	The Virginia Grassroots Coalition
Department of Environmental Quality	Virginia Association of Counties

[4] Evaluation of Performance-Based Ratemaking: Stakeholder Process by Virginia Department of Energy

Dominion Energy	Virginia Energy Consumer Alliance
Great Plains Institute	Virginia Energy Purchasing Governmental Association
Office of Attorney General	Virginia Committee for Fair Utility Rates and Old Dominion Committee for Fair Utility Rates
Natural Resources Defense Council (NRDC)	Virginia Grassroots Coalition
New Virginia Majority	Virginia League of Conservation Voters
NRG Energy	Virginia Manufacturers Association
Pacific Economics Group Research LLC	Virginia Municipal League
Pacific Northwest National Laboratory	Virginia Organizing
Plan RVA	Virginia Poverty Law Center
Regulatory Assistance Project (RAP)	

Overview of Stakeholder Meetings

Kickoff Meeting – October 28, 2024[5]

Summary

Director Davis opened the meeting, followed by a Department of Energy presentation on the Enabling Resolution's requirements for the State Corporation Commission (SCC) and DOE, updates on the stakeholder process, and opportunities for comments.

Agenda

1. **Opening remarks by Director Davis**
2. **Presentation on the Enabling Resolution – Dept of Energy**
   The department shared what the Enabling Resolution constitutes and requires from SCC and DOE to conduct the proceedings
3. **Update on Opening Comments for the stakeholder process and deadline**
   The department shared its vision for the stakeholder process and the opportunity for stakeholders to provide initial comments for this study.
4. **Stakeholder Questions about the process**
   Questions revolved around extending the stakeholder process as well as the initial comment period, so stakeholders can be more prepared.
5. **Next Steps:**

[5] For all the materials shared during the meeting, see APPENDIX B: Kickoff Meeting – October 28, 2024.

Stakeholders were provided with the opportunity to share initial comments by 2nd December 2024.[6]

Meeting 1 - December 9, 2024[7]

Summary

Connecticut Office of Consumer Counsel reviewed the shift to performance-based regulation (PBR), discussing traditional utility regulation, best practices, and Connecticut's ongoing reforms. Updates included current PBR proceedings, evaluation practices, and review of enabling resolution.

Agenda

1. **Overview of Performance-Based Regulation by Tom Weihl, Connecticut Office of Consumer Counsel**

   Presentation on Leveraging PBR: Build a More Affordable, Reliable, and Equitable Energy System

   The group discussed traditional utility regulation and needs for reform, some of the commonly used PBR tools and best practices, incremental vs comprehensive PBR, as well as Connecticut's experience in implementing PBR reforms.
2. **Outline of Existing Performance Evaluation and Regulation Practices and Active PBR Proceeding Update – PUR-2023-00210 by SCC"**
3. **Review of the enabling Resolution by DOE**

   The department provided an overview of the legislation, including a timeline for the stakeholder process as well as SCC's study, performance areas, and tools to be considered, goals of the proceeding, activities to be considered, and stakeholders that should be included.
4. **Discussion and update on the Stakeholder process participants, meetings, and timeline**

   The department facilitated a discussion on what the stakeholder process should look like and took notes from the group on how, when, and the frequency with which the group would like to meet, what the duration and modes of meetings should be, and what all activities they would like to see in this process. There was a consensus among members on presentations by industry experts, 2 to 3-hour-long virtual meetings, and a request to extend the deadline for the stakeholder process.

   - A docket was filed by SCC to extend the stakeholder process deadline from 7th February 2025 to 9th May 20258.
   - A survey to gauge stakeholder perspectives on the Commonwealth's Current Regulatory Framework for Utility Performance was circulated.

[6] All the initial comments submitted by the stakeholders can be found in APPENDIX A: Initial Comments.

[7] For all the materials shared during the meeting, see APPENDIX B: Stakeholder Meeting Resources, Meeting 1 - December 9, 2024.

[8] PUR-2024-00152: Study of performance-based regulation and alternative regulatory tools for investor-owned electric utilities, State Corporation Commission, 09 September 2024

Meeting 2 - December 20, 2024[9]

Summary

The commission led an in-depth overview of Virginia's electric utility rate-making practices. Stakeholders presented perspectives on environmental justice, energy efficiency, affordability, and incentives for cost containment, and survey results on the commonwealth's current regulatory framework were discussed. The meeting concluded with plans for further input and a review of performance-based regulation (PBR) experiences from other regions.

Agenda –

1. SCC Overview of Current Ratemaking Practices

Commission Staff detailed three types of electric company proceedings: fuel costs recovery, rate adjustment clauses (RACs), and base rates. For both Dominion Energy and Appalachian Power Company (APCO), approximately 50% of costs are recovered through base rates and 50% through RACs, with the difference that RACs provide dollar-for-dollar cost recovery while base rates offer an opportunity to recover costs.

2. Stakeholder Perspectives on Current Regulatory Structure

- Southern Environmental Law Center
    - SELC discussed opportunities to enhance environmental justice and distributed energy resources, suggesting improvements like tracking service disconnections by locality and minimizing interconnection times.
- The Nature Conservancy
    - TNC focused on energy efficiency, noting that the current regulatory model rewards generation build-out rather than demand reduction, and questioned whether Virginia's existing Energy Efficiency Resource Standard could be better designed.
- Virginia Poverty Law Center and Virginia Energy Consumer Alliance
    - VPLC and VAECA together addressed transparency and affordability concerns, highlighting the lack of formal assessment of affordability and suggesting metrics similar to those used in Illinois.
- Clean Virginia
    - Clean Virginia discussed how the current rate structure weakens cost containment incentives, explaining that regulated utility monopolies tend to maximize profit by using more capital than necessary.
- Pacific Economics Group
    - PEG advocated for MRPs with attrition relief mechanisms, presenting research showing that utilities under such plans achieved more rapid productivity growth.
- Dominion Energy
    - Dominion Energy argued that Virginia's regulatory framework already contains performance-based elements, including ROE adjustments based on performance metrics, earnings sharing mechanisms, and mandates for renewable energy development.
- Appalachian Power

[9] For all the materials shared during the meeting, see APPENDIX B: Stakeholder Meeting Resources, Meeting 2 - December 20, 2024.

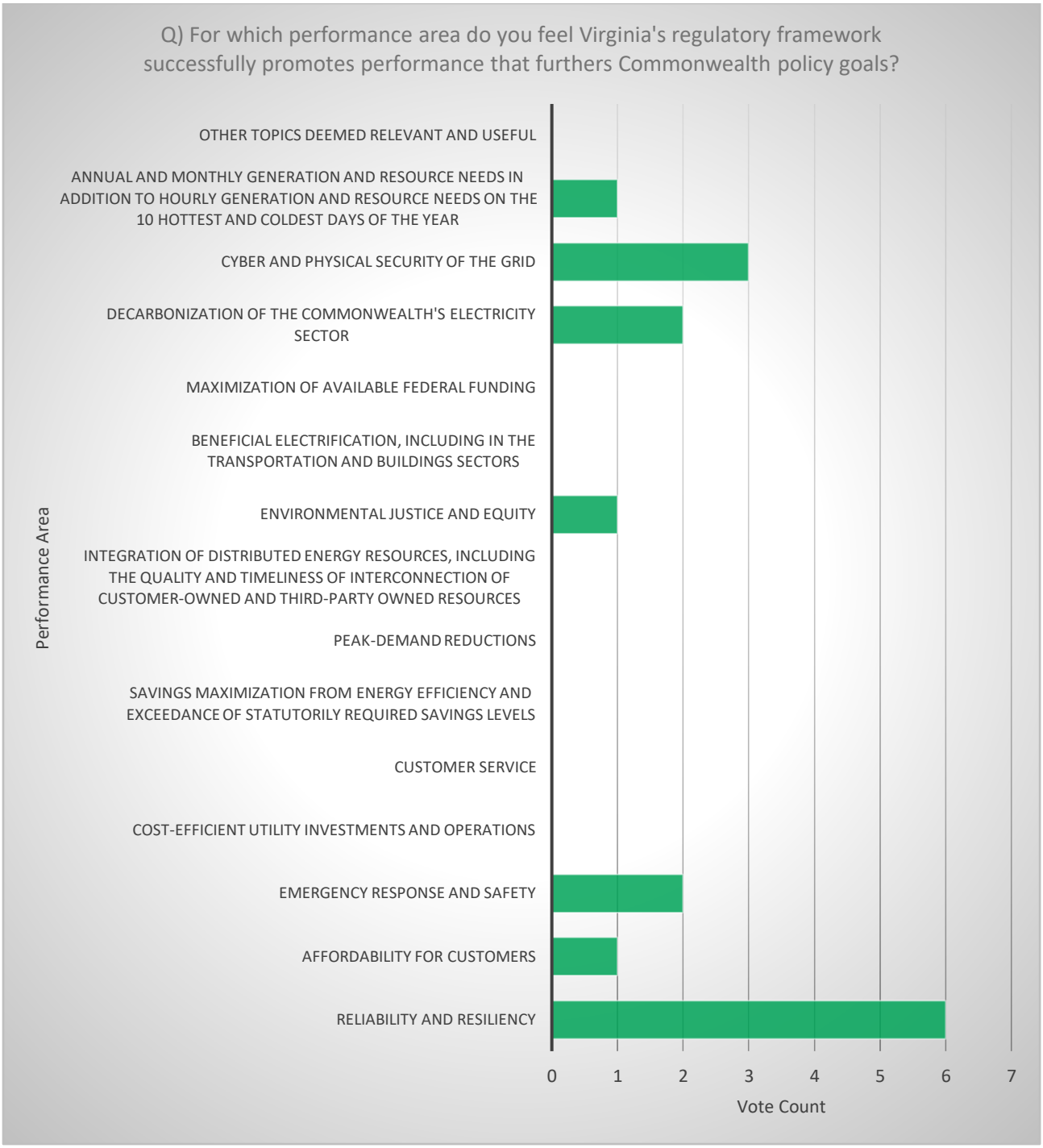
    - Concurred with Dominion Energy that the current model provided effective oversight and incentivized efficient capital investment and operations.
- NRG Energy, Inc.
    - NRG offered a competitive service provider perspective, contrasting their business model with regulated utilities and arguing that Virginia's system has more adjustment clauses than any other jurisdiction.

3. Group Discussion

- Regulatory Structure:
    - The commission clarified that fuel factor and RACs function similarly for dollar-for-dollar recovery, but the fuel factor does not include a profit margin, while most RACs do.
- Base Rates Content:
    - Base rates cover everything not in RACs, including pre-2007 costs and anything not specifically provided for in the code through a RAC; shared the Commission.
- CWIP Recovery:
    - The Commission shared that both base rates and RACs recover only financing costs for Construction Work in Progress until the investment is put into service.
- Environmental Justice Reporting:
    - Virginia Energy Consumer Alliance and Virginia Poverty Law Center in their presentation and responses discussed that utilities track data by ZIP code rather than census tract; Illinois obtains ZIP code data and layers it over census tract data for analysis better match and align where their services where the utility services need to be to focus on CJ or EJ communities and any other groups of households and customers that they realize that they have a problem there. Groups shared that although difficult to obtain, more granular data at the census level would be helpful.
- Resource Efficiency:
    - The Commission has proposed scorecard metrics on generating plant performance to ensure units are available when needed.
- Energy Efficiency Compliance:
    - Stakeholders expressed concern that utilities are forecasting non-compliance with energy efficiency targets despite the growing need due to data center expansion.
- Regulatory Lag:
    - The longer period between when costs change and when they are recovered (regulatory lag) is an important tool for cost containment, but RACs have diminished this incentive.

4. Virginia's Current Regulatory Framework Survey

This survey was conducted to gauge stakeholder perspectives on the Commonwealth's Current Regulatory Framework for Utility Performance. The department received eight responses to the survey. Overview of the responses:

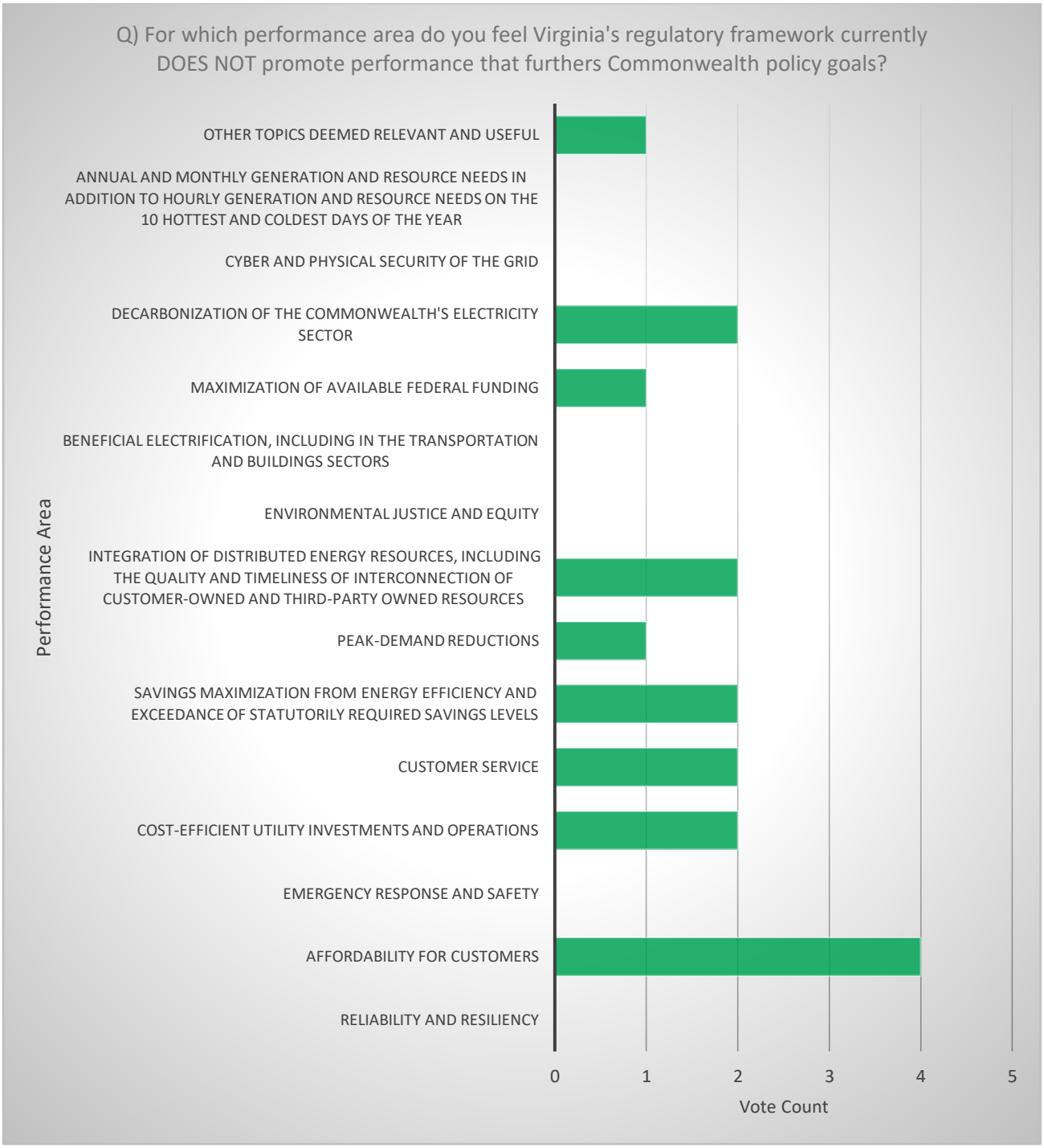


Q) Why do you think Virginia's regulatory framework promotes this performance area?

Some stakeholders mentioned that Virginia's regulatory framework ensures high reliability and resiliency, with utilities maintaining strong performance metrics and making significant investments in grid security and modernization. Responses to the survey also noted that even though environmental justice and decarbonization are now central to regulatory decisions, and the current system incorporates various performance-based mechanisms, there are some concerns about affordability and the effectiveness of recent policy changes.

Q) What do you think it is about the current regulatory framework that makes it effectively promote performance in that area?

A few groups shared that the current regulatory framework strongly incentivizes utilities to prioritize reliability and capital investments, potentially favoring projects with high returns for shareholders. While reliability is robust and rates are below the national average, some responses noted that the system encourages utilities to select costly projects, maximizing profits, which do not always align with affordability or consumer interests.



Q) Why do you think Virginia's regulatory framework DOES NOT promote this performance area?

Survey responses highlighted concerns about utility profit motives conflicting with affordability, energy efficiency, and decarbonization goals, as well as issues with customer service and delays in integrating distributed energy resources. Lack of collaboration for federal funding and insufficient regulatory incentives were also noted by some respondents.

Q) What do you think it is about the current regulatory framework that makes it NOT effectively promote performance in that area?

Stakeholders raised concerns around Virginia's current regulatory structure prioritizing utility profits over affordability, energy efficiency, and decarbonization, with little incentive for utilities to pursue cost-effective or equitable solutions. Stakeholders shared that there is weak enforcement by regulators, barriers for customers to access assistance, and a need for modernizing the regulatory framework to better serve low- and middle-income customers and reflect today's energy challenges. Some responses considered the current system to balance interests appropriately and did not perceive a need for major changes.

Q) Other thoughts on current regulatory framework in the Commonwealth for utility performance?

Responses reflected a range of views, with some groups supporting the introduction of performance metrics, incentives, and decoupling to better align utility goals with policy objectives and ratepayer interests. Other responses emphasized enforcing existing regulations before adopting new frameworks. Some stakeholders raised concerns about weak energy efficiency targets amid growing data center loads.

Meeting 3 - January 17, 2025[10]

Summary:

RMI's team shared insights into PBR frameworks implemented in other states and discussed lessons learned to inform Virginia's PBR process.

Agenda

1) Other states' experiences in evaluating and implementing PBR - Rocky Mountain Institute

- The RMI team began the discussion by defining PBR as a regulatory approach aligning utilities' financial incentives with customer and societal interests and presented the overview of incremental and Comprehensive PBR, distinguishing between incremental PBR (adding specific mechanisms to traditional cost-of-service models) and comprehensive PBR (fundamentally restructuring utility incentives).
- Their presentation provided details on how Hawaii and North Carolina implemented Comprehensive PBR, while other states such as Colorado, Minnesota, and Maryland adopted pilot programs for PBR mechanisms with varying degrees of success.

2) Case Studies:

- Hawaii:

[10] For all the materials shared during the meeting, see APPENDIX B: Stakeholder Meeting Resources, Meeting 3 - January 17, 2025.

- Hawaii's comprehensive PBR framework includes MRPs, decoupling, performance incentive mechanisms (PIMs), and cost efficiency measures. The state underwent a robust stakeholder process to align goals, outcomes, and principles before implementation.

- North Carolina:
  - North Carolina's PBR framework is enshrined in statute, with MRPs (three years), decoupling for residential customers, and modest PIMs. The framework incentivizes cost efficiency but has limitations in addressing throughput incentives and equalizing Capex/Opex incentives.
- Incremental Examples:
  - States like Colorado, Minnesota, and Maryland have adopted piecemeal approaches to PBR. Colorado focuses on PIMs for equity and cost containment. Minnesota uses MRPs but emphasizes tracking metrics over PIMs. Maryland's MRPs have faced criticism for potentially inflating costs.

3) Group Discussion on Stakeholder Process

- Highlights from RMI's presentation:
  - Emphasis on PBR is not a one-size-fits-all approach
  - Hawaii's comprehensive PBR framework is a standout example
  - Maryland has innovative energy efficiency capitalization methods
  - Colorado has adopted equity-focused performance incentive mechanisms
- Questions Raised by Stakeholders:
  - What are the best examples of MRPs and other PBR tools in the U.S.?
    - Best Examples of PBR Tools: Hawaii's MRPs, Maryland's energy efficiency capitalization methods, and Colorado's performance incentive mechanisms for equity and beneficial electrification were highlighted as effective models.
  - How do states address challenges with long-term forecasting in MRPs?
    - Challenges in MRPs: Issues include balancing accuracy in cost forecasting over extended periods (3–5 years) and implementing safeguards like earnings-sharing mechanisms or off-ramps to address deviations.
    - How can Virginia assess its current regulatory framework to identify gaps?
- Stakeholders emphasized the need to assess Virginia's existing regulatory framework to identify gaps before proposing new mechanisms.
  - What safeguards exist in other states' PBR frameworks to address deviations?
    - Off-ramps or re-openers help the PUCs to reevaluate the framework and adjust when a mechanism is not functioning as intended.
    - Earning-sharing mechanisms act as a safeguard to prevent under- or overearnings
    - States could think about how to adopt a performance incentive mechanism, review processes, and make it as frequent as needed
    - Some states have also considered conducting a comprehensive evaluation annually or towards the end of MRP. For example, Hawaii is currently looking at spending trends of the utility over the MRP.

4) Next Steps and Closing

- A detailed assessment of Virginia's existing regulatory structure to identify gaps or inefficiencies is needed

- Facilitation of discussions among stakeholders to establish shared goals and desired outcomes for PBR implementation.
- Dedicated presentations on specific topics like MRPs, decoupling mechanisms, or performance incentive mechanisms.
- Provide opportunities for stakeholders to submit written feedback throughout the process.

Meeting 4 – February 28, 2025[11]

Summary

This meeting focused on reviewing the enabling legislation, discussing goals for the stakeholder process, and introducing a regulatory assessment template to evaluate Virginia's current rate-making framework. The meeting also addressed questions about learning opportunities and future discussions on PBR tools.

Agenda

1) **Review of the Enabling Statutes of the legislation – Great Plains Institute and Current Energy Group**
   - The Great Plains Institute provided an overview of House Joint Resolution 30 and Senate Joint Resolution 47, which directs the State Corporation Commission (SCC) to study PBR tools for investor-owned utilities. The study aims to evaluate these tools' potential to modernize the regulatory framework, align financial incentives with energy policy goals, and balance stakeholder interests. Key performance areas include affordability, reliability, environmental justice, decarbonization, and customer service.
   - Key Points from the presentation:
     - The study must analyze current regulatory frameworks, identify misalignments with energy policy goals, and propose reforms.
     - Stakeholders emphasized the importance of understanding existing mechanisms before exploring alternatives.
     - A spreadsheet approach was suggested to organize performance areas and mechanisms systematically.
2) **Goal setting for the PBR process in the Commonwealth**
   - Stakeholders were divided into breakout groups to discuss their individual goals for the process and identify top priorities for the group. Themes of affordability, reliability, consensus-building, and education emerged strongly.
   - Key points from breakout group discussions:
     - The discussions focused on evaluating the effectiveness of current Performance-Based Regulation (PBR) elements and exploring more comprehensive approaches.
     - Smaller group discussions emphasized the importance of a balanced strategy that ensures progress across all key metrics. Areas where consensus is achieved should become priorities for further research and implementation, with a particular focus on identifying the most effective PBR tools for those areas.

[11] For all the materials shared during the meeting, see APPENDIX B: Stakeholder Meeting Resources, Meeting 4 – February 28, 2025.

- The group also highlighted the value of mutual understanding and the need to identify stakeholder priorities, perspectives, and specific tools of interest for further study by the State Corporation Commission (SCC).
- Affordability emerged as a central theme, with the recognition that it requires a clear definition and consideration of both systemwide and customer-specific impacts.
- The group discussed how PBR mechanisms could support energy efficiency goals and affordability and stressed the need for stakeholder education to enable robust participation.
- There was agreement on the importance of presenting both the benefits and drawbacks of alternative regulatory approaches, ensuring that any tool's value is weighed against its costs and aligned with intended goals.
- Additionally, the discussion addressed the necessity of clarifying the Commonwealth's clean energy goals, understanding the current regulatory landscape, and identifying specific problems to address.
- Stakeholders expressed that the adoption of any specific PBR approach should be driven by specific, measurable goals/outcomes rather than a desire to see a specific tool implemented. In other words, adoption of PBR should be an outcome-driven decision rather than a process-driven driven.
- Other key considerations included reliability, resilience, lifecycle impacts, and ensuring that any new framework takes a holistic, long-term view of the energy system, aligning with public interest and supporting a comprehensive understanding of how programs and technologies interact.

3) Regulatory Assessment Exercise Introduction[12]

- Current Energy Group introduced a template designed to evaluate how existing rate-making mechanisms impact specific outcomes (e.g., affordability or reliability). Stakeholders were tasked with completing at least two worksheets focusing on different outcomes.
- Template Overview:
  - Stakeholders assess each mechanism (e.g., rate reviews, rate adjustment clauses) as positive (+), neutral (0), or negative (-) concerning a chosen outcome, i.e., performance area.
  - Use issues for attention to highlight areas needing improvement or further exploration.
  - The exercise aims to clarify problems in the current framework before proposing solutions.
- Key Questions Raised:
  - How should stakeholders address gaps in knowledge when completing the template?
  - Can issues for attention include open-ended questions for SCC consideration?

4) Next Steps and Closing

- Stakeholders were encouraged to submit at least two complete worksheets by March 6th or later deadlines.

[12] Virginia Regulatory Assessment Template document can be found in APPENDIX B: Stakeholder Meeting Resources, Meeting 4 – February 28, 2025.

- Scheduled for March 10th, featuring a presentation by the Regulatory Assistance Project on PBR tools.
- Stakeholders were asked to submit comments in an ongoing open comment period through early April on meeting topics or other relevant issues.

Meeting 5 - March 10, 2025[13]

Summary

This meeting was divided into two parts. The first part included a presentation on the overview of PBR mechanisms by the Regulatory Assistance Project (RAP). RAP's presentation included an introduction to key tools used for the regulatory reforms, including revenue decoupling, MRPs, and performance-based mechanisms. The second part focused on revenue decoupling mechanisms for natural gas utilities, emphasizing their role in ensuring fixed cost recovery while promoting energy efficiency and conservation. It compared decoupling with true-up mechanisms, clarified their distinctions, and discussed Virginia's implementation under the Care Act, including provisions for low-income customers. The group also explored the potential application of decoupling to electric utilities.

Agenda

1) **Review goal setting for the PBR process in the Commonwealth**
   - The department provided an overview of the discussed and agreed-upon goals for the PBR reforms by the group in Meeting 4. The notes for the same were circulated with the group prior to the meeting.
2) **PBR Mechanisms - Regulatory Assistance Project (RAP)**
   - <u>Overview of PBR Mechanisms</u>
     PBR is a regulatory framework designed to incentivize utilities to achieve public policy objectives, such as energy efficiency, reliability, and decarbonization. It shifts the focus from traditional cost-of-service models to performance outcomes. Key elements include:
     - Multi-Year Rate Plans (MRPs): Encourage cost control by setting rates over multiple years with limited rate cases.
     - Performance Incentive Mechanisms (PIMs): Provide financial rewards or penalties based on achieving specific metrics.
     - Decoupling: Separates utility revenues from sales volumes to promote energy efficiency without financial disincentives.
     - Metrics and Scorecards: Track and evaluate utility performance against predefined benchmarks.
   - <u>Challenges and Design Considerations</u>
     The presentation emphasized that PBR mechanisms are not revolutionary but incremental improvements to traditional models. Key challenges include:
     - Designing metrics that align with policy goals while avoiding unintended consequences.

[13] For all the materials shared during the meeting, see APPENDIX B: Stakeholder Meeting Resources, Meeting 5 - March 10, 2025.

- Balancing rewards and penalties to ensure materiality without overburdening utilities or customers.
- Addressing existing incentives that may conflict with PBR goals, such as capital expenditure biases.

- Participant questions and concerns:
  - How to determine the appropriate size of financial incentives to drive meaningful utility behavior changes.
  - Whether PBR mechanisms could conflict with or complement current rate-making practices in Virginia.
  - How PBR can address rising electricity costs while maintaining reliability and equity.
- Key Points from Questions and Answers
  - Customers using less energy still benefit from lower commodity costs despite fixed delivery cost recovery through decoupling.
  - Virginia is lacking a step between what we have in terms of rates and how we could transition towards a theoretically better framework of MRPs.
  - Stakeholders highlighted the need for better clarity on how PBR mechanisms interact with Virginia's existing regulatory framework, including MRPs and riders.

3) Application of Gas Decoupling - State Corporation Commission (SCC)

The main themes discussed in the meeting were revenue decoupling mechanisms, their application in Virginia, and the comparison with true-up mechanisms.

- Revenue Decoupling Mechanisms

  SCC explained revenue decoupling as a regulatory tool for natural gas utilities to recover fixed costs despite declining sales due to energy efficiency programs. This mechanism separates utility revenues from sales volumes, ensuring that utilities can promote conservation without financial loss. Key components include normalization for weather impacts, cost-effective energy efficiency programs, and performance-based incentives tied to verify economic benefits.
- Mechanics of Decoupling

  Revenue decoupling involves calculating adjustments based on non-gas revenue per customer, target distribution revenue, and actual revenue shortfalls. This ensures utilities recover fixed costs while customers benefit from reduced gas usage and lower commodity costs. The mechanism is structured to balance utility needs with customer savings.
- Comparison with True-Up Mechanisms

  SCC's presentation contrasts decoupling with true-up mechanisms, emphasizing that while both address revenue shortfalls, true-up mechanisms focus on reconciling projected versus actual costs for specific riders. Decoupling, on the other hand, incentivizes broader conservation efforts by aligning utility incentives with energy efficiency goals.
- Application in Virginia

Virginia has implemented decoupling mechanisms for three gas utilities under the Care Act: Virginia Natural Gas, Columbia Gas, and Washington Gas Light Company. These mechanisms include provisions for low-income customers and publicly accessible tariff documents outlining their frameworks.

- Potential Expansion to Electric Utilities

  The discussion briefly touched on the possibility of applying decoupling to electric utilities and noted differences in cost recovery structures and the need for further exploration of feasibility and benefits.
- Key Points from the discussions:
  - Customer Perspective: *Customers still benefit from lower commodity costs despite fixed delivery cost recovery via decoupling. Individual savings from energy efficiency programs remain unaffected by the RNA mechanism*.
  - Differences Between Decoupling and True-Up Mechanisms: *Decoupling ensures fixed cost recovery while promoting conservation. True-up mechanisms reconcile projected versus actual costs for specific programs*.
  - Virginia's Implementation: *Three gas utilities currently operate under approved decoupling mechanisms. Tariff documents are publicly available for transparency*.
- **Questions and Responses**
  - How does decoupling impact customer savings?

    Customers still benefit from lower commodity costs, and individual savings from energy efficiency programs remain unaffected by the decoupling mechanism.
  - What is the difference between decoupling and true-up mechanisms

    Decoupling ensures utilities recover fixed costs while promoting conservation, whereas true-up mechanisms reconcile projected versus actual costs for specific programs or riders.
  - Which utilities in Virginia use decoupling mechanisms?

    Virginia Natural Gas, Columbia Gas, and Washington Gas Light Company have approved decoupling mechanisms under the CARE Act.
  - Can decoupling be applied to electric utilities?

    While possible, applying decoupling to electric utilities requires addressing differences in cost recovery structures and further evaluating feasibility and benefits.

Meeting 6 – March 28, 2025[14]

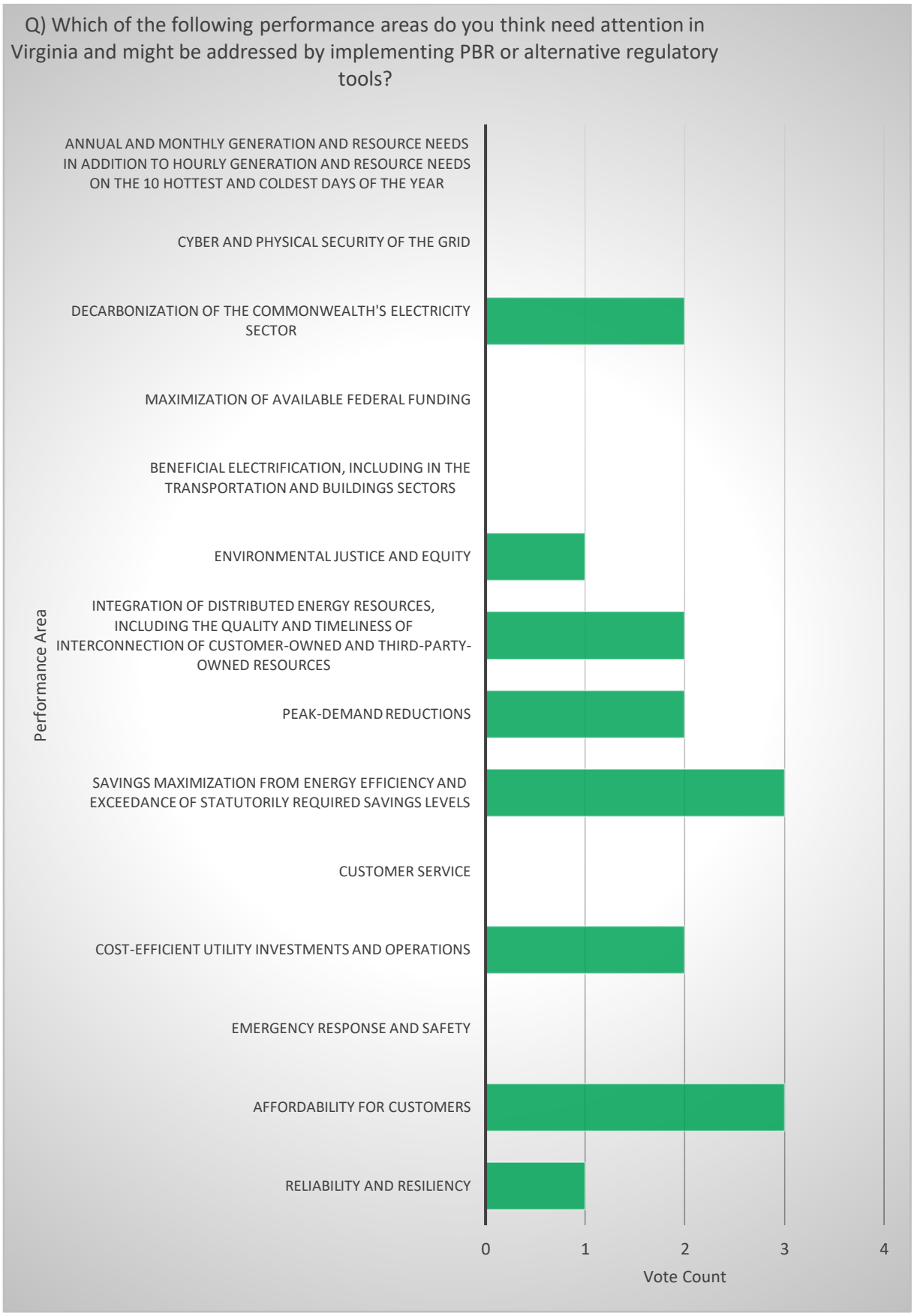
Summary

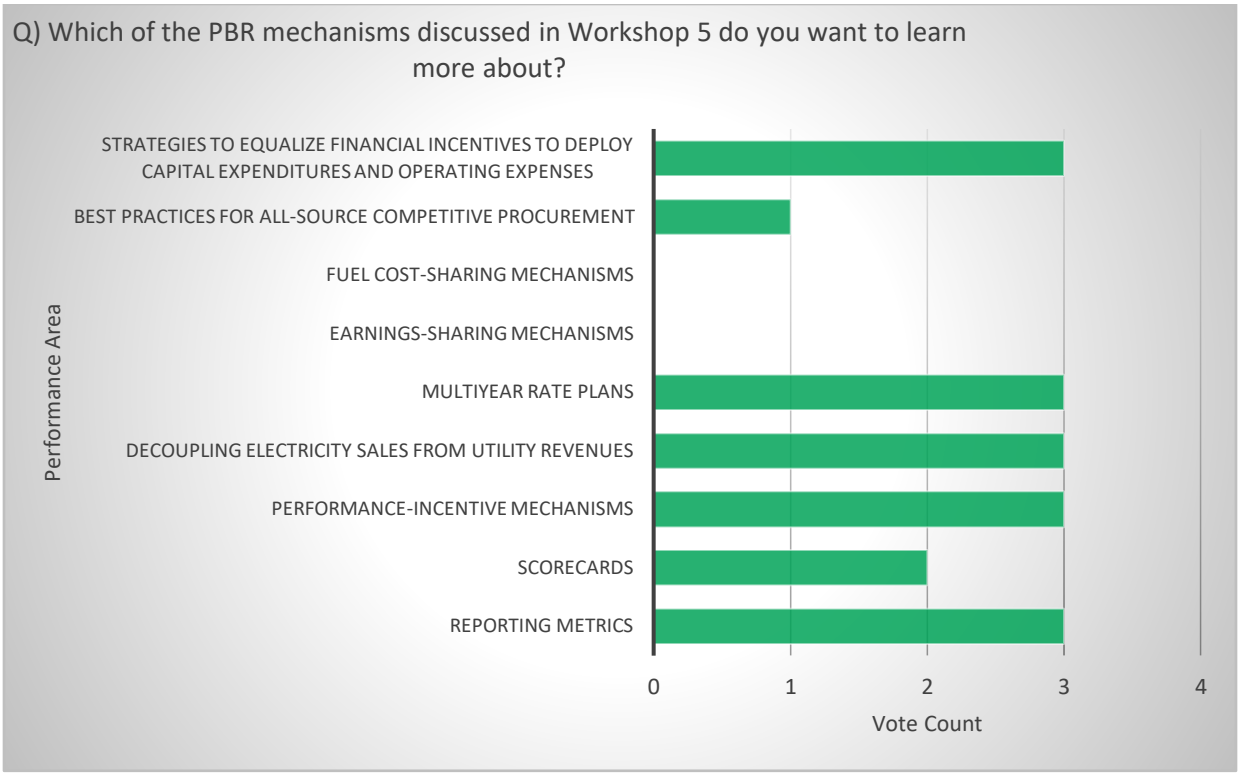
In this meeting, the department provided the stakeholders with the opportunity to comment on the group's responses to a survey on the potential application of PBR and alternative ratemaking mechanisms in Virginia and the regulatory assessment. The format for submission of the final assessment and comments were also discussed.

[14] For all the materials shared during the meeting, see APPENDIX B: Stakeholder Meeting Resources, Meeting 6 - March 28, 2025.

Agenda

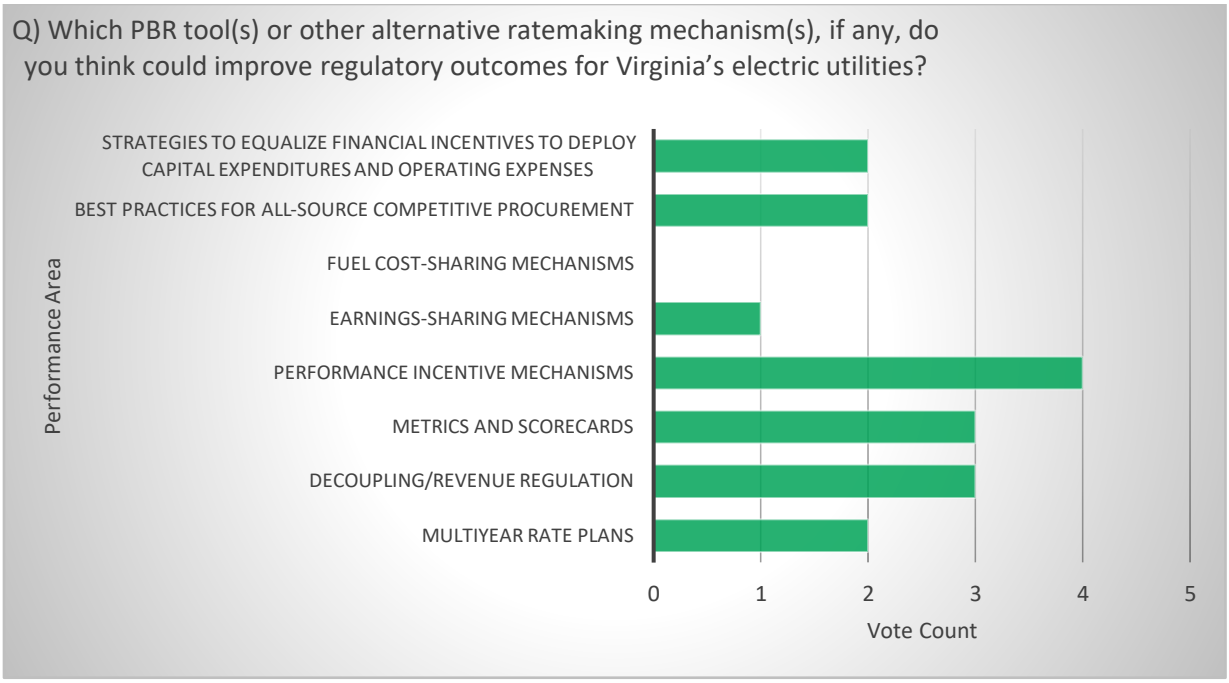
1) **Summary of responses to Survey #2**
    - The group answered questions regarding the potential application of PBR and alternative ratemaking mechanisms in Virginia. The department received seven responses to this survey.


Q) Which of the following performance areas do you think need attention in Virginia and might be addressed by implementing PBR or alternative regulatory tools?
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
CYBER AND PHYSICAL SECURITY OF THE GRID
DECARBONIZATION OF THE COMMONWEALTH'S ELECTRICITY SECTOR
MAXIMIZATION OF AVAILABLE FEDERAL FUNDING
BENEFICIAL ELECTRIFICATION, INCLUDING IN THE TRANSPORTATION AND BUILDINGS SECTORS
ENVIRONMENTAL JUSTICE AND EQUITY
INTEGRATION OF DISTRIBUTED ENERGY RESOURCES, INCLUDING THE QUALITY AND TIMELINESS OF INTERCONNECTION OF CUSTOMER-OWNED AND THIRD-PARTY-OWNED RESOURCES
PEAK-DEMAND REDUCTIONS
SAVINGS MAXIMIZATION FROM ENERGY EFFICIENCY AND EXCEEDANCE OF STATUTORILY REQUIRED SAVINGS LEVELS
CUSTOMER SERVICE
COST-EFFICIENT UTILITY INVESTMENTS AND OPERATIONS
EMERGENCY RESPONSE AND SAFETY
AFFORDABILITY FOR CUSTOMERS
RELIABILITY AND RESILIENCY
Performance Area
0
1
2
3
4
Vote Count



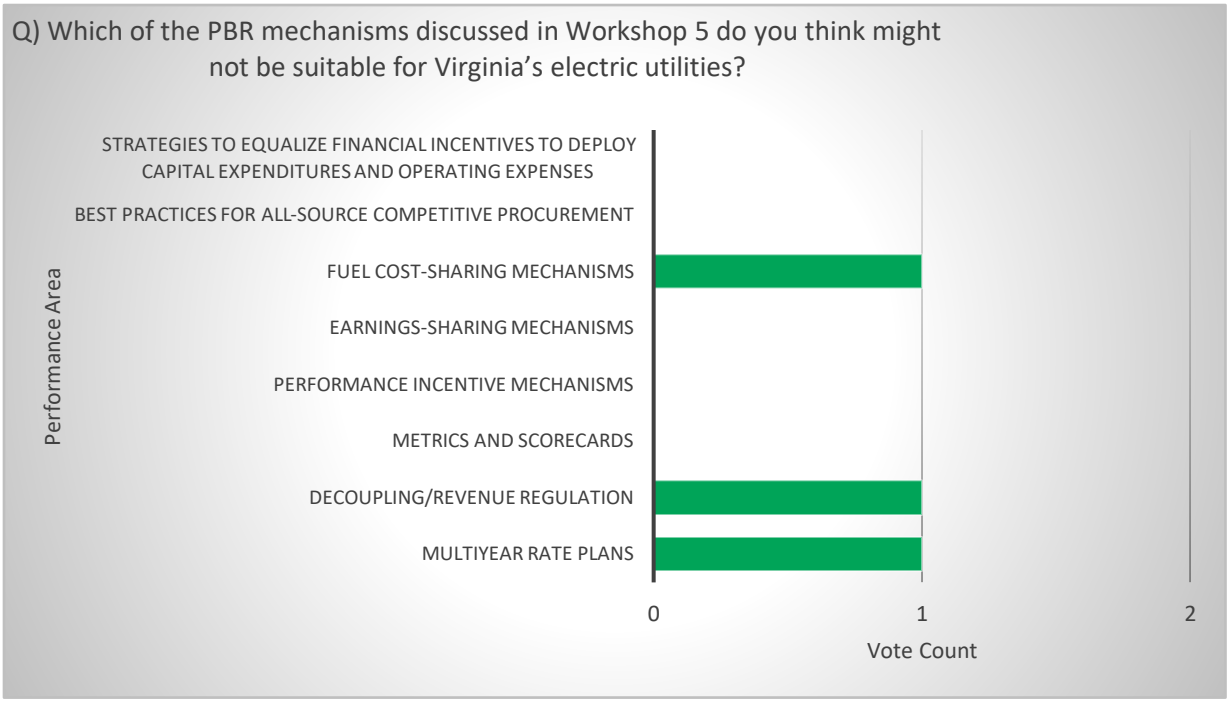
Q) What questions do you have about these mechanisms and what features of the selected mechanisms are you most interested in?

Survey responses highlighted interest in understanding ways to design effective PIMs, including their optimal size, number, and ability to achieve multiple goals like affordability and energy efficiency. Stakeholders also sought examples of successful PIMs, best practices for reporting metrics (especially qualitative ones), and approaches to equalizing financial incentives across capex/opex. Additional questions focused on the relationship between PIMs, scorecards, and report metrics, the lack of decoupling in Virginia despite energy efficiency goals, differences between rate case schedules and MRPs, and how PBR can address challenges for energy-intensive industries facing rising costs and reliability concerns.



Q) What designs, key features, potential interactions, or implementation considerations are important for these tools?

Stakeholders emphasized that effective PIMs require meaningful rewards/penalties, robust metrics, and increased transparency. Groups also referred to the importance of decoupling to support energy efficiency, the need for comprehensive and transparent rate data, and concern over high energy costs impacting manufacturing competitiveness.

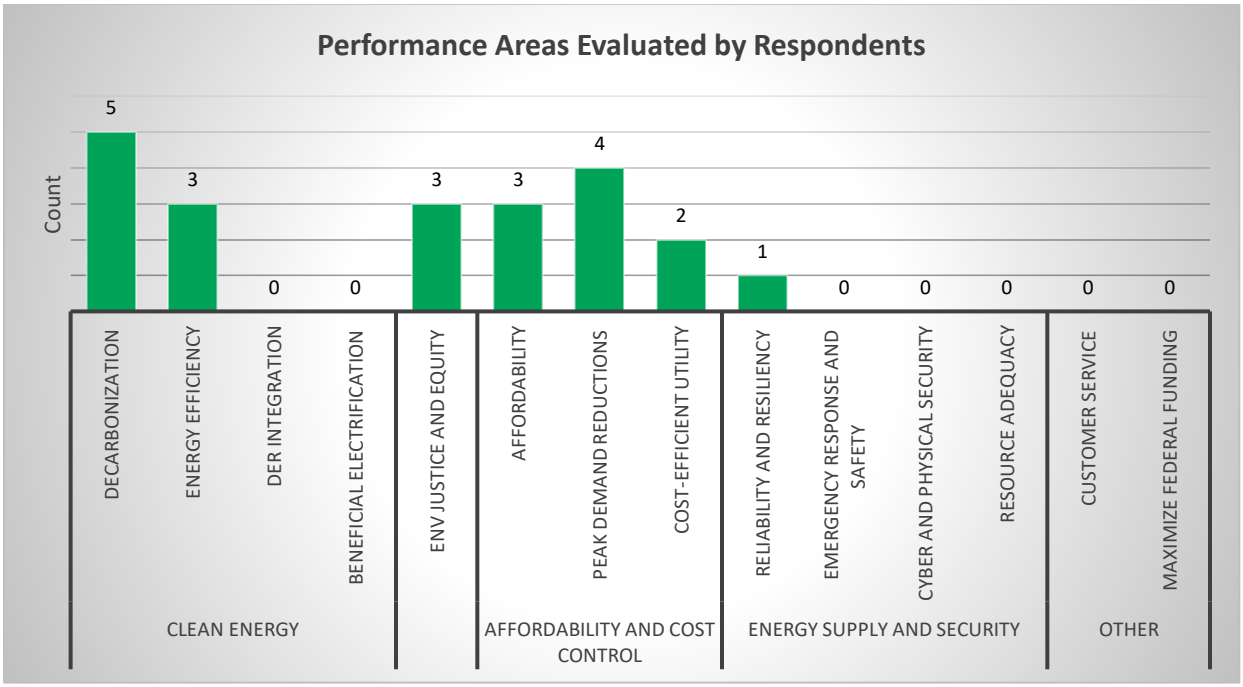


Q) Why might these tools be unsuitable approaches for improving regulatory outcomes for Virginia's electric utilities?

Stakeholders shared a range of views, with some groups supporting moving away from fossil fuels and cautioning against fuel cost-sharing mechanisms and others expressing concerns over uncertainty about MRPs due to Virginia's shifting policies. A small percentage of stakeholders also felt the current regulatory framework already promotes key performance areas and includes effective PBR tools, while others cautioned that new mechanisms could shift risk onto customers and should be balanced by lower utility returns.

2) Summary of the Regulatory Assessment responses[15]

- Total Responses received – 22
- Total Responding Organizations – 11
- The areas of most interest were clean energy, environmental justice and equity, and affordability and cost control categories.



3) Discussion on the Regulatory Assessment responses

- The discussion focused on evaluating Virginia's current utility regulatory mechanisms, with particular attention to rate adjustment clauses (RACs), energy efficiency incentives, and the broader impacts on decarbonization, affordability, and cost containment.
- **Overview of the discussion:**
  - RACs are widely used in Virginia, often beyond their typical application in other states, raising concerns about diminished cost containment and excessive risk transfer to customers.

[15] All stakeholder submissions to the Regulatory Assessment Template can be found in APPENDIX C: Regulatory Assessment Responses.

- Some stakeholders called for limiting RACs duration and scope, moving costs into base rates after construction to restore traditional regulatory discipline.
- Energy efficiency targets were seen by some stakeholders as necessary but currently insufficient; third-party models and more robust performance incentives were recommended.
- Affordability remains a challenge, with RACs and frequent rate reviews cited as drivers of higher costs and weaker cost control.
- The group also showed some support to enhance performance metrics, transparency, and accountability in regulatory mechanisms.
- SCC's role in prudent reviews and cost approvals is essential for protecting ratepayers.

- **Key topics of discussion included:**
  - Decarbonization Incentives
    - Even though we have decarbonization goals established, current mechanisms often lack strong incentives for utilities to reduce carbon emissions.
    - Pass-through costs for compliance and fuel often go directly to customers, providing little utility incentive to decarbonize and, in some cases, promoting counterproductive outcomes like carbon leakage from manufacturing.
    - Mechanisms such as energy efficiency performance targets are seen as positive but insufficiently motivating, as utilities have not always met established targets.
  - Rate Adjustment Clauses (RACs) vs. Base Rates
    - RACs allow utilities to recover costs for specific projects outside of base rates, often with annual true ups that may shift risk from shareholders to customers.
    - The group discussed whether RACs undermine cost containment, as they guarantee recovery and profit, reducing utilities' incentive to control costs.
    - Some stakeholders argued for limiting RACs to construction periods only, after which costs should move into base rates to restore risk and cost discipline.
    - While others noted that RACs are necessary to attract investment for large capital projects, their use in Virginia is broader than in many other states, where RACs are typically reserved for strategic or non-traditional investments.
  - Energy Efficiency and Demand-Side Management
    - The group discussed whether current incentives and performance mechanisms are sufficient to drive meaningful energy efficiency improvements.
    - Concerns about utilities being naturally incentivized to pursue capital projects over demand-side measures, and that energy efficiency targets, while helpful, have not always been met were raised.
    - Some stakeholders advocated for exploring third-party administration models (for example, DC Sustainable Energy Utility, Energy Trust of Oregon) that could more effectively deliver energy efficiency programs and ensure accountability through clear performance metrics.
  - Affordability and Cost Containment
    - Many stakeholders noted that RACs and frequent rate cases can erode incentives for cost control and drive-up customer bills.
    - Suggestions such as maintaining rigorous SCC oversight, tying cost recovery to explicit approval and prudency reviews, and considering MRPs with built-in performance metrics to balance risk and reward were put forth.

- Performance Mechanisms and Data Tracking
  - Stakeholders discussed the need for robust performance metrics, scorecards, and data tracking to ensure that incentives align with policy goals.
  - There was interest in learning from other states about how to structure and verify performance-based rewards and penalties, and how to address privacy concerns in data reporting.

4) Key Questions and Answers

- **What is the fundamental difference between RACs and base rates, and how does this affect utility incentives?**

  RACs allow for project-specific cost recovery with guaranteed returns and annual true-ups, reducing risk for utilities and potentially weakening cost containment. In contrast, base rates aggregate costs and expose utilities to more risk, incentivizing greater cost discipline.
- **Are RACs unique to Virginia, and how do other states use them?**

  While RACs (or similar mechanisms) exist elsewhere, Virginia's use is broader, covering most capital investments rather than being limited to strategic or non-traditional expenditures. Other states often reserve RACs for areas where utilities lack natural incentives to invest, such as energy efficiency.
- **Do performance-based mechanisms and penalties actually drive better outcomes?**

  The group shared mixed perspectives, with some mechanisms (e.g., energy efficiency bonuses) working for certain utilities but not others. There was interest in clearer metrics, enforceable penalties that do not burden ratepayers, and consideration of third-party models to improve accountability.
- **How do frequent rate cases and RACs affect regulatory burden and cost containment?**

  Frequent reviews can increase administrative costs for all parties, including ratepayers, and may dilute cost containment incentives compared to longer regulatory lags. However, the SCC staff indicated that differences between two- and three-year review cycles are not significant in terms of resource burden, but longer intervals could have more impact.
- **Should Virginia consider third-party administration for energy efficiency programs?**

  Several stakeholders supported exploring models like the DC Sustainable Energy Utility or Energy Trust of Oregon, which use performance-based contracts and independent oversight to deliver results and ensure that incentives are aligned with public policy goals

5) Final comments and Exercise[16]

- Current Energy Group outlined how the final assessment tool should be used in conjunction with written comments, emphasizing that participants can assess up to three PBR mechanisms, focusing on how each could address specific objectives and performance areas relevant to Virginia.
- It was highlighted in the discussion that open-ended comments were still accepted; the SCC strongly encouraged the use of the form to focus feedback on specific PBR tools and design features, as it would be most helpful for their analysis.

[16] All stakeholder submissions to the Final comments and exercise can be found in APPENDIX D: Final Comments.

Meeting 7 - April 10, 2025[17]

Summary

This meeting focused on evaluating Virginia's current performance-based regulation (PBR) mechanisms, with a presentation from the Rocky Mountain Institute (RMI) comparing Virginia's framework to those in other states and discussing potential reforms such as multi-year rate plans (MRPs) and performance incentives. Stakeholders also discussed the regulation of competitive service providers, the interplay between market-driven and regulated incentives, and the challenges of aligning regulatory tools with state policy goals. The meeting concluded with a Q&A session on PBR tools and the next steps to finalize stakeholder input for the SCC study.

Agenda

1) **Current performance mechanisms in the Commonwealth – RMI**

   RMI's presentation provided a comprehensive evaluation of Virginia's current performance-based regulation (PBR) mechanisms and comparison to frameworks in other states. RMI highlighted that Virginia currently operates on a two-year rate review cycle, which, while frequent, can undermine cost containment and increase administrative burden. In contrast, states advancing PBR are increasingly adopting MRPs with three- to five-year terms, which incentivize utilities to contain costs by allowing them to retain a portion of any savings achieved during the rate period. MRPs often include "guardrails" like earnings sharing mechanisms (ESMs) to protect customers from excessive utility profits. RMI pointed out that Virginia already has an ESM in place, though its effectiveness depends on how it is integrated with other tools.

   Further, they shared that Virginia lacks electric revenue decoupling, a mechanism widely used in other states to break the link between utility revenues and electricity sales, thus removing disincentives for energy efficiency investments. Decoupling was described as a "low-hanging fruit" for delivering affordability benefits and accelerating efficiency savings. The presentation also shared the limitations of Virginia's current statutory framework, which restricts the State Corporation Commission's (SCC) ability to adjust utility returns on equity (ROE) based on performance to just four categories—reliability, plant performance, customer service, and operating efficiency—whereas leading states have broader authority to incentivize a wider range of policy goals, including decarbonization, distributed energy resources, and environmental justice. RMI recommended expanding the scope and magnitude of performance incentives to better align with Virginia's policy objectives and industry's best practices.

   Stakeholders raised questions about how Virginia's rates compare to those in other states with advanced PBR, such as North Carolina, and whether adopting elements like MRPs and decoupling could help Virginia remain competitive while supporting policy goals. RMI responded that while PBR is not a "silver bullet" for lowering rates, it can realign utility incentives toward cost control and policy achievement, provided the mechanisms are carefully designed and tailored to Virginia's context.

   Additional questions addressed best practices for fuel cost sharing (with RMI noting that requiring utilities to bear even 5% of fuel cost overruns can drive meaningful cost savings), and

[17] For all the materials shared during the meeting, see APPENDIX B: Stakeholder Meeting Resources, Meeting 7 - April 10, 2025.

how to ensure PBR tools support both affordability and reliability in the face of rising demand, such as from data center growth. RMI emphasized the importance of iterative goal setting, stakeholder engagement, and transparent, data-driven metrics to ensure that PBR reforms deliver intended public benefits

2) **Potential PBR Reforms – Clean Virginia & Synapse Energy**
Clean Virginia and Synapse Energy presented on the potential for MRPs to improve Virginia's performance-based regulation (PBR) framework. They began by contrasting Virginia's current two-year rate review cycle and heavy reliance on rate adjustment clauses (trackers) with traditional cost-of-service regulation and best practices from other states. They also shared that Virginia's widespread use of trackers reduces regulatory lag and shifts much of the financial risk from utilities to customers, thereby weakening utilities' incentives for cost containment. They suggested that moving more costs into base rates under a well-designed MRP, with a three- to five-year stay-out period and robust earnings sharing mechanisms, could better align utility incentives with customer affordability and policy goals. However, they cautioned that MRPs must be carefully designed: if too many costs remain outside the MRP or if reconciliation to actual costs is allowed, the incentive for utilities to control costs is eroded.

The presentation also emphasized the importance of holistic design, noting that the effectiveness of MRPs depends on how all elements, such as revenue caps, external cost indices, and performance incentive mechanisms (PIMs), work together. They highlighted the need for clear evaluation criteria to ensure MRPs deliver intended benefits, such as cost efficiency, predictable rates, and achievement of policy objectives, and recommended that MRPs include most utility costs within the revenue requirement, minimize the use of trackers, and avoid annual reconciliations. They also discussed the role of decoupling in supporting energy efficiency and distributed generation, suggesting that if decoupling is adopted, energy efficiency targets should be strengthened accordingly.

The stakeholder discussion focused on the challenges of projecting costs and revenues over longer periods, especially given uncertainty and the need for regulatory comfort with three- to five-year plans. Stakeholders raised questions about the interaction of MRPs with existing PBR elements and the potential benefits of combining MRPs with performance incentives for goals like reliability and affordability. The presenters responded that combining MRPs with targeted PIMs and careful risk-sharing mechanisms can drive better utility performance and customer outcomes, but stressed the need for ongoing evaluation and adjustment to ensure the framework remains effective. There was also discussion about the risks of poor MRP design, as illustrated by Maryland's experience, where excessive reconciliation led to significant rate increases and limited cost control.

3) **Discussion on the regulation of competitive service providers (CSPs)**
NRG Energy emphasized that CSPs generally do not need performance-based ratemaking because they operate in a market-driven environment. If CSP customers are dissatisfied with a CSP's service or pricing, they can switch providers, creating a natural incentive for CSPs to maintain competitive prices and high service quality. This dynamic stands in contrast to IOUs, which are regulated monopolies, and are not directly impacted by market competition. Additionally, CSPs are subject to licensing, reporting, and marketing regulations, which serve to further protect the customers. There were no other comments on regulatory considerations for CSPs.

Meeting 8 - April 22, 2025[18]

Summary

Stakeholders discussed the draft report and Commission staff outlined the next steps in the study.

Agenda

1) **Carbon Leakage Discussion**
   - Per enabling resolution and prior interest shown, stakeholders were invited to share their perspectives and comments on how PBR tools may assist in preventing carbon leakage in the manufacturing sector. There was no engagement during the meeting, but the Virginia Manufacturers' Association had provided comments in their regulatory assessment submission.
2) **Draft Report Discussion**
   - The stakeholder group had the opportunity to share their comments on the draft version of the report, with a focus on the recommendations. Some stakeholders made suggestions on adding reservation clauses that indicate the views represented in the report are not necessarily reflective of individual groups. Stakeholders also made comments and suggestions to edit, add, or remove the draft recommendations. It was determined that the final recommendations should be circulated as a survey to allow groups to individually express their agreement or disagreement with each recommendation.
3) **SCC updates on the next steps**
   - Commission Staff shared how they would use the draft report from the department. They also updated the group on the next steps in the PBR study, their timelines, and how stakeholders may be involved in their process.
4) **Next Steps and Closing**
   - A survey allowing stakeholders to indicate their agreement or disagreement with the recommendations made in the Department's final report to the Commission.
   - Stakeholders were invited to share any other comments on the draft report via email.

Recommendations

These recommendations are intended to inform the Commission's study by identifying key subject areas and analyses based on stakeholder input throughout the stakeholder process. Individual positions of stakeholders on each recommendation were recorded through a survey (completed by 15 of the 37 groups that participated in the process) and are noted below.[19]

The discussions and recommendations contained in this report reflect the views of some members of the stakeholder group and are not necessarily representative of any individual stakeholder's, the majority of the members of the stakeholder group, or the Virginia

[18] For all the materials shared during the meeting, see APPENDIX B: Stakeholder Meeting Resources, Meeting 8 - April 22, 2025.

[19] The Commission on Electric Utility Regulation (CEUR)'s responses to the final survey, indicating their agreement or disagreement with the department's recommendations, reflect the opinions of CEUR staff and do not necessarily reflect the opinions of any CEUR members

Department of Energy's positions.

The Current Regulatory Structure

- **Recommendation[20]:** The Commission should address whether the areas of concern identified by stakeholders in surveys, comments, and discussions have a clear scope for improvement based on reasonable comparisons (could include energy costs in neighboring states, energy efficiency program accomplishments, etc.).
- **Recommendation[21]:** The Commission should assess whether the current regulatory structure is aligned with the Commonwealth's statutory clean energy and energy efficiency goals, identifying potential conflicting incentives, including ensuring affordability and reliability for customers.
- **Recommendation[22]:** The Commission should review existing performance-based elements, assessing their efficacy in achieving the stated goals and identifying lessons learned for any future performance-based mechanisms.

Rate Adjustment Clauses (RACs)

- **Recommendation[23]:** The Commission should directly address RACs in their study and conduct a comparative analysis on the costs and benefits to ratepayers and utilities of recovering investments through RACs, base rates, performance-based tools or hybrid mechanisms.

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[20] Stakeholders agreeing with this recommendation: Advanced Energy United, Appalachian Voices, Chesapeake Climate Action Network, Clean Virginia, Commission on Electric Utility Regulation, New Virginia Majority, NRG Energy, Southern Environmental Law Center, The Nature Conservancy, Virginia Committee for Fair Utility Rates & Old Dominion Committee for Fair Utility Rates, Virginia Electric and Power Company (Dominion), Virginia Energy Consumer Alliance, Virginia Grassroots Coalition's Climate & Clean Energy Working Group, Virginia Organizing
Stakeholders disagreeing with this recommendation:
Stakeholder with no opinion on this recommendation: Appalachian Power Company

[21] Stakeholders agreeing with this recommendation: Advanced Energy United, Appalachian Voices, Chesapeake Climate Action Network, Clean Virginia, Commission on Electric Utility Regulation, New Virginia Majority, Southern Environmental Law Center, The Nature Conservancy, Virginia Energy Consumer Alliance, Virginia Grassroots Coalition's Climate & Clean Energy Working Group, Virginia Organizing
Stakeholders disagreeing with this recommendation: Virginia Electric and Power Company (Dominion)
Stakeholders with no opinion on this recommendation: Appalachian Power Company, NRG Energy, Virginia Committee for Fair Utility Rates & Old Dominion Committee for Fair Utility Rates

[22] Stakeholders agreeing with this recommendation: Advanced Energy United, Appalachian Voices, Chesapeake Climate Action Network, Clean Virginia, Commission on Electric Utility Regulation, New Virginia Majority, Southern Environmental Law Center, The Nature Conservancy, Virginia Committee for Fair Utility Rates & Old Dominion Committee for Fair Utility Rates, Virginia Electric and Power Company (Dominion), Virginia Energy Consumer Alliance, Virginia Grassroots Coalition's Climate & Clean Energy Working Group, Virginia Organizing
Stakeholders disagreeing with this recommendation:
Stakeholders with no opinion on this recommendation: Appalachian Power Company, NRG Energy

[23] Stakeholders agreeing with this recommendation: Advanced Energy United, Appalachian Voices, Chesapeake Climate Action Network, Clean Virginia, Commission on Electric Utility Regulation, New Virginia Majority, NRG Energy, Southern Environmental Law Center, The Nature Conservancy, Virginia Energy Consumer Alliance, Virginia Grassroots Coalition's Climate & Clean Energy Working Group, Virginia Organizing
Stakeholders disagreeing with this recommendation: Appalachian Power Company, Virginia Electric and Power Company (Dominion)
Stakeholder with no opinion on this recommendation: Virginia Committee for Fair Utility Rates & Old Dominion Committee for Fair Utility Rates

    - This analysis would not have to address the specific mechanisms of the existing RACs if the Commission deems that to be outside the scope of the study
- **Recommendation[24]:** In addition to looking broadly at RACs, the Commission should address fuel cost recovery and provide analysis on how fuel-cost sharing mechanisms can alter utility spending through fuel conservation or choosing alternate fuels

Performance-Based and Alternative Tools

- **Recommendation[25]:** In its study, the Commission should clearly define the goals or objectives that have informed its approach to evaluating performance-based tools. If future work is conducted in Virginia to develop alternative ratemaking approaches, that should also be organized according to a targeted set of identified objectives.
- **Note:** The stakeholder group expressed interest in all the PBR and alternative tools with PIMs (inc. scorecards and metrics), decoupling, MRPs, capex/opex equalization and fuel cost sharing, receiving the most attention throughout the process.

Performance Incentive Mechanisms (PIMs)

- **Recommendation[26]**: The Commission should evaluate what PIM designs could materially affect positive outcomes in different performance areas, focusing on key areas identified by stakeholders, in surveys, comments, and discussions.
    - Such an assessment should address the scale of the associated reward/penalty required to incentivize improved performance, clarify what other performance areas could be positively or negatively affected, and consider what measures could be put in place to guard against decreased performance in other areas.

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[24] Stakeholders agreeing with this recommendation: Advanced Energy United, Appalachian Voices, Chesapeake Climate Action Network, Clean Virginia, Commission on Electric Utility Regulation, New Virginia Majority, NRG Energy, Southern Environmental Law Center, The Nature Conservancy, Virginia Energy Consumer Alliance, Virginia Grassroots Coalition's Climate & Climate & Clean Energy Working Group, Virginia Organizing
Stakeholders disagreeing with this recommendation: Appalachian Power Company, Virginia Electric and Power Company (Dominion)
Stakeholders with no opinion on this recommendation: Virginia Committee for Fair Utility Rates & Old Dominion Committee for Fair Utility Rates

[25] Stakeholders agreeing with this recommendation: Advanced Energy United, Appalachian Voices, Chesapeake Climate Action Network, Clean Virginia, Commission on Electric Utility Regulation, New Virginia Majority, Southern Environmental Law Center, The Nature Conservancy, Virginia Committee for Fair Utility Rates & Old Dominion Committee for Fair Utility Rates, Virginia Electric and Power Company (Dominion), Virginia Energy Consumer Alliance, Virginia Grassroots Coalition's Climate & Clean Energy Working Group, Virginia Organizing
Stakeholders disagreeing with this recommendation:
Stakeholders with no opinion on this recommendation: Appalachian Power Company, NRG Energy

[26] Stakeholders agreeing with this recommendation: Advanced Energy United, Appalachian Voices, Chesapeake Climate Action Network, Clean Virginia, Commission on Electric Utility Regulation, New Virginia Majority, Southern Environmental Law Center, The Nature Conservancy, Virginia Energy Consumer Alliance, Virginia Grassroots Coalition's Climate & Clean Energy Working Group, Virginia Organizing
Stakeholders disagreeing with this recommendation: Virginia Electric and Power Company (Dominion)
Stakeholders with no opinion on this recommendation: Appalachian Power Company, NRG Energy, Virginia Committee for Fair Utility Rates & Old Dominion Committee for Fair Utility Rates

Multiyear Rate Plans (MRPs)

- **Recommendation**[27]: The Commission, in its evaluation of MRPs, should provide analysis on the effects of incorporating investments currently recovered through base rates and RACs into an MRP framework, including how this affects the proportionate risk borne by ratepayers and shareholders.

Capital Investments

- **Recommendation**[28]**:** The Commission should evaluate which existing or alternative mechanisms would better optimize deployment of capital and non-capital resources, such as operational solutions, non-wires alternatives and demand-side management measures.

Regulatory Dynamics

- **Recommendation**[29]: The Commission study should examine which PBR tools would work together to effectively achieve key outcomes.
    - Recognizing that the Commission will only have limited time, it could be appropriate to be selective in terms of which tools and outcomes to include in an evaluation. If this is the case, then it is recommended that the Commission focus on tools and outcomes that have been highlighted as key stakeholder interests.

Comparison with Other Jurisdictions:

- **Recommendation**[30]**:** The Commission should provide analysis of the relative performance of jurisdictions or utilities with advanced PBR elements (including 3–5-year MRPs)

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[27] Stakeholders agreeing with this recommendation: Advanced Energy United, Appalachian Voices, Chesapeake Climate Action Network, Clean Virginia, Commission on Electric Utility Regulation, New Virginia Majority, NRG Energy, Southern Environmental Law Center, The Nature Conservancy, Virginia Energy Consumer Alliance, Virginia Grassroots Coalition's Climate & Clean Energy Working Group, Virginia Organizing
Stakeholders disagreeing with this recommendation: Appalachian Power Company, Virginia Electric and Power Company (Dominion)
Stakeholders with no opinion on this recommendation: Virginia Committee for Fair Utility Rates & Old Dominion Committee for Fair Utility Rates

[28] Stakeholders agreeing with this recommendation: Advanced Energy United, Appalachian Voices, Chesapeake Climate Action Network, Clean Virginia, Commission on Electric Utility Regulation, New Virginia Majority, NRG Energy, Southern Environmental Law Center, The Nature Conservancy, Virginia Energy Consumer Alliance, Virginia Grassroots Coalition's Climate & Clean Energy Working Group, Virginia Organizing
Stakeholders disagreeing with this recommendation: Virginia Electric and Power Company (Dominion)
Stakeholders with no opinion on this recommendation: Appalachian Power Company, Virginia Committee for Fair Utility Rates & Old Dominion Committee for Fair Utility Rates

[29] Stakeholders agreeing with this recommendation: Advanced Energy United, Appalachian Voices, Chesapeake Climate Action Network, Clean Virginia, Commission on Electric Utility Regulation, New Virginia Majority, NRG Energy, Southern Environmental Law Center, The Nature Conservancy, Virginia Energy Consumer Alliance, Virginia Grassroots Coalition's Climate & Clean Energy Working Group, Virginia Organizing
Stakeholders disagreeing with this recommendation: Appalachian Power Company, Virginia Electric and Power Company (Dominion)
Stakeholders with no opinion on this recommendation: Virginia Committee for Fair Utility Rates & Old Dominion Committee for Fair Utility Rates

[30] Stakeholders agreeing with this recommendation: Advanced Energy United, Appalachian Voices, Clean Virginia, Commission on Electric Utility Regulation, New Virginia Majority, NRG Energy, Southern Environmental Law Center, The Nature Conservancy,

compared to Virginia, states with formula rate plans, and other jurisdictions deemed appropriate by the Commission.

The discussions and recommendations contained in this report reflect the views of some members of the stakeholder group and are not necessarily representative of any individual stakeholder's, the majority of the members of the stakeholder group, or the Virginia Department of Energy's positions.

Virginia Electric and Power Company (Dominion), Virginia Energy Consumer Alliance, Virginia Grassroots Coalition's Climate & Clean Energy Working Group
Stakeholders disagreeing with this recommendation:
Stakeholders with no opinion on this recommendation: Appalachian Power Company, Chesapeake Climate Action Network, NRG Energy, Virginia Committee for Fair Utility Rates & Old Dominion Committee for Fair Utility Rates, Virginia Organizing