## Virginia PBR Mechanism Assessment Worksheet

## Please provide your name and organization.

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## **Worksheet Instructions**

This worksheet contains a table that will allow you to share your views on how specific PBR mechanisms (or alternative regulatory tools) could help Virginia make progress towards the regulatory outcomes and performance areas listed in <u>HJ 30/SJ 47</u>. In the first column, <u>select a PBR mechanism that you think could be beneficial for Virginia.</u> Follow the instructions in the top row of the table to make your PBR mechanism, regulatory outcome, and performance area selections. Then provide your responses to the open-ended follow-up questions. This document contains <u>three</u> copies of the table—you can elect to complete tables for up to three mechanisms.

This assessment serves as a template for you to provide your final written comments for the Department's stakeholder engagement process. <u>Participants are invited to expand on their</u> responses in these tables in accompanying comments, but are asked to include PBR assessments in the format provided here to support a common approach and review of relevant information. **Please limit responses in the table(s) to 200 words per question.** If you wish to provide additional supporting detail, please do so in accompanying comments. This assessment is due to the Department on April 11, 2025.

## Glossary of PBR Mechanisms and Alternative Regulatory Tools

For reference purposes, we have provided a glossary of the PBR mechanisms/alternative regulatory tools listed in HJ 30. If you feel that any of the listed tools require a modified definition, please provide your preferred definition and an explanation of why you think this modification is necessary. For additional details on these mechanisms, please refer to the prior meeting materials available on the Department of Energy's PBR stakeholder engagement process webpage (link here).

- *Performance-incentive mechanisms ("PIMs"):* Mechanisms that provide a financial reward (or penalty) to the utility based on measurable performance on an identified outcome. PIMs consist of a metric, a target, and a financial incentive.
- *Reporting metrics:* Specific, quantifiable measures used to assess a utility's performance in achieving a outcome.
- *Scorecards:* A tool that pairs reported metrics with performance targets, improving transparency and tracking performance toward a goal.
- Decoupling electricity rates from utility revenues ("revenue decoupling"): Decoupling (i.e., un-linking) the recovery of a utility's allowed distribution revenue from the level of consumption (sales) by its customers.

- *Multiyear rate plans ("MYRPs"):* Rate plans that set the utility's revenue requirement and base rates for more than one year. MYRPs typically include a rate-case moratorium (or stay out period) and may include a "revenue cap" that fixes allowed revenues over that period. A MYRP can include additional components to provide revenue adjustments for inflation, productivity improvements, additional cost components, or other factors.
- *Fuel cost-sharing mechanisms:* A shared savings mechanism (SSM) that allows the utility to retain a portion of fuel cost savings, if achieved, rather than pass those through to customers. This seeks to incentivize the utility to pursue fuel reductions or cost control measures.
- *All-source competitive procurement:* A set of approaches for utility contracting for resource needs, including requirements to seek competitive bids and to permit proposals of different technologies or solutions rather than be technology specific.
- Strategies to equalize financial incentives to deploy capital expenditures and operating expenses ("capex-opex equalization"): A suite of mechanisms that can reduce the inherent incentive embedded in conventional ratemaking for utility investment in capital projects over operating expense, due to the ability to earn (profit) on capex. Common options or proposed solutions include opex capitalization, PIMs or shared savings mechanisms for targeted expenses, modified clawback mechanism (e.g., included in a MYRP), earnings carryover mechanism, and totex ratemaking.

PBR Mechanism/Alternative I	Regulatory Tool Selection	
Select <u>one</u> PBR mechanism or alternative regulatory tool	Which regulatory objective(s) would this PBR mechanism most help Virginia achieve? <u>Select UP TO</u> <u>two (2)</u> as the primary objectives to achieve.	What performance area(s) could this PBR mechanism help improve or advance? Select UP TO three performance areas that you think could or should be improved by implementing this mechanism.
<ul> <li>Reporting Metrics</li> <li>Scorecards</li> </ul>	□ Tracking and achieving improved performance in affordability, reliability, customer service, and resiliency	□ reliability and resiliency X affordability for customers
Performance-Incentive	X Enhancing cost-containment incentives	□ emergency response and safety
Mechanisms	Streamlining planning and resource procurement to secure competitive prices for energy infrastructure	X cost-efficient utility investments and operations
from utility revenues	□ Harmonizing financial incentives created through	□ customer service
Multiyear Rate Plans	regulation with the Commonwealth's energy policy goals	□ savings maximization from energy efficiency and exceedance of statutorily required savings levels
X Fuel cost-sharing mechanisms	Eliminating disincentives for utilities to deploy	peak-demand reductions
☐ Best practices tor all-source competitive procurement	efficiency savings, and peak-load reduction	□ DER integration, including the quality and timeliness of interconnection of customer- & third-party-owned resources
Strategies to equalize financial incentives to deploy capital	A Making progress toward the Commonwealth's decarbonization goals	environmental justice and equity
expenditures and operating		$\square$ beneficial electrification (transportation, buildings, other)
Other (please describe:		maximization of available federal funding
		X decarbonization of the Commonwealth's electricity sector
		$\square$ cyber and physical security of the grid
		$\Box$ 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
		□ Other (please describe:)
Features and Design Conside	arations for this PBR or alternative regulation too	
<b>Question 1:</b> Why would the PBR me	echanism you selected help Virginia make progress towarc	is meeting the regulatory objectives and performance areas that

<ul> <li>Question 5: What potential interactions with other mechanisms need to be considered?</li> <li>4a) Existing regulatory/ratemaking structures</li> <li>4b) Potential new regulatory/ratemaking structures (e.g., other PBR mechanisms or alternative regulatory tools under consideration)</li> </ul>
Similar to the escalating RPS requirements in § 56-585.5 an escalating fuel cost sharing percentage could be applied to carbon emitting fuel sources with the utility bearing an ever greater share of the carbon emitting fuel cost. Assuming a 5% starting point, as is the case in some states where this has been implemented, it would be conceivable that with escalating percentages a Phase 1 utility would bear 100% of the carbon emitting fuel costs in 2045 and beyond for any Virginia-based facility, should there be any. This aligns with the intent of § 56-585.5. Fuels for carbon-free generating facilities should be exempted from this fuel cost sharing mechanism (e.g., nuclear). Recent modeling has shown that cost-effective carbon free generation for a Phase 2 utility by 2045 is feasible. See <a href="https://www.scc.virginia.gov/docketsearch/DOCS/844%425011.PDF">https://www.scc.virginia.gov/docketsearch/DOCS/844%425011.PDF</a> .
<b>Question 4:</b> For this PBR mechanism/alternative regulatory tool, what <b>key design features/attributes</b> do you suggest for inclusion? (e.g., if you selected multi-year rate plans as your PBR mechanism, what is your suggested number of years between rate cases and what other design features should be considered?)
Currently, the ratemaking construct allows utilities to pass through fuel purchased for their facilities as a rate adjustment clause. As a pure pass-through, the fuel rider neither (1) creates an opportunity for the utility to earn, nor (2) creates any incentive for the utility to conserve – in other words, the utility has no "skin in the game" with regard to fuel use. A number of states have imposed a percentage, such as 5%, as a starting point for the fuel purchases that the utility is responsible for bearing rather than being passed through to customers.
<b>Question 3:</b> What limitations or challenges of Virginia's <b>current ratemaking construct</b> would this PBR mechanism/alternative regulatory tool seek to change? Where possible, identify specific ratemaking structures and their limitations.
This would impact the utility's fuel costs and selection of generating fuels. Rather than 100% of the fuel costs passed through to customers a set or escalating percentage could be applied to carbon emitting fuels that are borne by the utility to incentive carbon free fuel sources.
<b>Question 2:</b> What component(s) of the utility's <b>costs or revenue requirements</b> would this PBR mechanism/alternative regulatory tool would apply to? (e.g., distribution system capital expense, transmission, power supply, fuel costs, ROE, etc.). For example, a fuel cost-sharing mechanism would impact a utility's <b>fuel costs (operating expense)</b> . Rather than the fuel costs being entirely passed through to customers, the utility would have opportunity to retain a share of fuel cost savings as <b>earnings</b> .
Electric utilities in Virginia are permitted to pass through to customers the cost of the fuel purchased for their facilities. As such there is no incentive to conserve fuel. This lack of fuel conservation incentive allows the utilities to continue to choose higher cost carbon emitting generation as they generate a higher ROE for the utility.

<ul> <li>all cost sharing mechanism would seem suited to be paired with revenue decoupling to minimize competing financial incentives. Revenue decoupling can allow far pursue demand side management, peak demand reduction strategies, energy efficiency and other measures to allow them to meet permitted revenue rates without curbon emitting resources being built or operated unceronomically.</li> <li>6: What data, metrics, or other information requirements are necessary for this PBR mechanism/alternative regulatory tool to be deployed by a lateral or metrics would be needed. The fuel cost is already passed through to the customer as a rate adjustment clause.</li> <li>7: What chalenges or unintended consequences could this PBR mechanism/alternative regulatory tool create, which might require additional attention intornig?</li> <li>7: What chalenges or unintended consequences could this PBR mechanism/alternative regulatory tool create, which might require additional attention intergy efficiency. This is intended to potential <i>unintended</i> consequence could be an enhancement of existing lead use challenges around local one potential <i>unintended</i> consequence could be an enhancement of existing lead use challenges around local on large solar facilities. There any other issues or points related to this PBR mechanism/alternative regulatory tool treat events and the customize of Nicibalis Laws, term emphasis on blacty energy as a likely to reduce the amount of utility-seale solar required to cost-effectively decarbonize the grid, anclionating is land use concerns. See https://www.sec.virginia.gov/doc/search/DOC/S/84/9/S011 PDE.</li> <li>8: Are there any other issues or points related to this PBR mechanism/alternative regulatory tool that you feel require attention?</li> <li>9: both protect ratepayers and speed decarbonization.</li> </ul>
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