

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION

GOVERNOR'S OFFICE  
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**INTERIM STAFF REPORT**

**Division of Public Utility Regulation**

**CASE NO. PUR-2020-00031**

**SEPTEMBER 1, 2020**

## INTRODUCTION

On February 21, 2020, Virginia Electric and Power Company, ("Dominion" or the "Company") filed an application with the State Corporation Commission ("Commission") to revise its fuel factor pursuant to § 56-249.6 of the Code of Virginia.

On June 30, 2020, the Commission issued an Order Establishing the 2020-2021 Fuel Factor. In its Order, the Commission noted Staff's testimony, indicating that Dominion had updated its forecasted June 2020 over-recovery balance to \$103 million, which was approximately \$22.3 million greater than its forecast of \$80.7 million included in its application. The Commission found that the proposed prior period factor should be updated to reflect Dominion's most recent forecasted June 2020 over-recovery balance. Additionally, in response to concerns expressed by the Virginia Committee for Fair Utility Rates and the Office of the Attorney General's Division of Consumer Counsel regarding the potential volatility of fuel factor recovery in the current economic climate, the Commission directed that beginning September 1, 2020, Staff file a report approximately every 60 days setting forth: 1) the Company's expected fuel factor recovery position; (2) the Company's actual fuel recovery position; (3) the reason for any variance; and (4) a recommendation of whether the Company should file an interim fuel case.

## DISCUSSION

As of July 31, 2020, the Company was in a cumulative over-recovery position of \$107,934,148 relative to Virginia jurisdictional fuel expenses. This compares to a projected over-recovery of \$106,602,739 for a positive variance of \$1,331,409 or 1.25%.<sup>1</sup> While fuel expense

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<sup>1</sup> Dominion submits monthly fuel monitoring reports 45 days after the end of a calendar month. Accordingly, there is a lag of at least 45 days in the receipt of actual data. Since July's fuel monitoring data is not yet available, Staff's evaluation is based on the Company's responses to data and interrogatory requests.

levels are driven by a number of inter-related factors, the primary drivers of these expenses include, but are not limited to, kilowatt hour sales, commodity prices, generating unit performances and wholesale exchanges – both purchases and sales. Staff offers the following observations in these areas:

- With regard to retail sales, actual sales for June and July were higher than projected by 3% and 15%, respectively. These levels reflect the combined effects of weather and the complex impact of COVID-19 on system load. It should be noted that sustained hot weather had a dramatic effect on July sales.
- A review of the Company's generating unit performance revealed that for June the weighted-average equivalent availability factor ("EAF") of the Company's coal units was significantly lower than forecast (67% vs. 87%). The combined-cycle EAF was also lower than projected (87% vs. 95%). Combustion turbines and biomass units experienced slightly higher EAFs. The weighted-average capacity factor for the nuclear units was higher than projected (103% vs. 94%). For July, with the exception of biomass (which experienced an EAF of 57% compared to a projected EAF of 87%), other units including solar performed at or above projected levels.
- Commodity prices were, for the most part, significantly lower than projected for both June and July. Natural gas prices were lower by 22% and 19% respectively. Coal prices were down 28% for both months and nuclear fuel costs were in-line with projections. The prices paid to biomass vendors were lower by 18% and 6% in June and July, respectively.

- Focusing on generation by fuel type, nuclear generation was in line with projections. Coal-fired generation was more than double the forecasted level, despite the lower EAF, because of significant reductions in commodity prices and in response to hot weather. Coal-fired generation also increased as a result of out-of-merit generation associated with required environmental testing. Nuclear generation was 3% higher than projected. Actual biomass generation was 59% higher in June as a result of better unit availability and lower fuel prices; generation was 12% lower in July due to lower unit availability. Combined-cycle generation was lower than projected for June and July by 12% and 3% respectively, due to more outages than was projected for these facilities. Combustion turbine generation was higher for June and July by 21% and 68%, respectively as a result of having to displace combined-cycle generation and responding to higher weather-related loads. Finally, solar generation<sup>2</sup> was down by 13% for the combined months of June and July as compared to projections and Non-Utility generation was down by 32%; both variances are largely due to reduced unit availabilities.
- PJM Interconnection, LLC ("PJM") market prices were lower than projected. On-peak and off-peak prices were down by 12% and 25%, respectively for June and 7% and 13%, respectively for July. Ultimately net purchases from the PJM system were down by 5% and 44%, respectively, for June and July because of additional off-system sales into PJM.

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<sup>2</sup> Solar generation also includes PURPA (Public Utility Regulatory Policies Act) solar facilities; Company-owned solar facilities generated at or above projected levels.

As indicated earlier, fuel expenses are driven by the complex interaction of a number of factors. Lower commodity prices contributed to the positive variance, but high load associated with hot weather acted as an offset. Mixed generating unit performance certainly had an impact, but that impact is difficult to quantify absent sophisticated production cost modeling. Likewise, lower market prices lowered the price of market purchases, but reduced profit associated with off-system sales. The combined effect of these factors produced a cumulative variance of approximately \$1.3 million as of July 31, 2020. While this variance of 1.25% does not in Staff's opinion, warrant the filing of an interim fuel case, the Staff is following up on the outages that resulted in lower than projected EAFs for some of the Company's units.