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STATE CORPORATION COMMISSION

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APPLICATION OF

VIRGINIA ELECTRIC AND POWER COMPANY **CASE NO. PUR-2023-00067**

To revise its fuel factor pursuant to Va. Code § 56-249.6

PETITION OF

VIRGINIA ELECTRIC AND POWER COMPANY **CASE NO. PUR-2023-00112**

For a financing order authorizing the issuance of deferred fuel cost bonds pursuant to Va. Code § 56-249.6:1

COMBINED REPORT OF D. MATHIAS ROUSSY JR., HEARING EXAMINER

September 25, 2023

Virginia Electric and Power Company d/b/a Dominion Energy Virginia ("Dominion" or "Company") has a statutory right to recover from customers all of the Company's prudently incurred fuel costs. Traditionally, Virginia electric utilities recover their fuel costs through a two-part "fuel factor" rate: one part of the rate is designed to recover projected fuel costs and the other part is designed to correct past projections based on actual fuel costs. In recent years, the actual fuel costs that Dominion has incurred to serve its retail customers have been much higher than the projected costs the Company charged, resulting in a large amount of fuel costs that have not yet been collected from customers.[1]

In last year's fuel factor case before the State Corporation Commission ("Commission"), the Commission's *2022 Fuel Order*[2] increased the Company's fuel rate and mitigated the rate impact of an $866 million balance of under-recovered fuel costs as of June 30, 2022, by spreading the recovery of those costs over three years. After that case concluded, Dominion's under-recovered fuel balance continued to grow, reaching $1.28 billion by June 30, 2023.

During the 2023 General Assembly Session, legislation was enacted that authorized Dominion to petition the Commission for approval to securitize the Company's deferred fuel costs. Securitization involves the issuance of highly rated bonds that are secured by a property right created and protected by state legislation. The proceeds from such bond issuances fund the utility's recovery of the securitized costs. The utility then has the right and obligation to collect revenues for bondholders through a nonbypassable charge that is isolated from the utility's other

[1] Under Virginia law, "fuel costs" includes the cost of fuels used to generate electricity and also the cost of power purchased to serve customers.

[2] *Application of Virginia Electric and Power Company, To revise its fuel factor pursuant to § 56-249.6 of the Code of Virginia*, Case No. PUR-2022-00064, 2022 S.C.C. Ann. Rep. 550, Order Establishing 2022-2023 Fuel Factor (Sep. 16, 2022) ("2022 Fuel Case" or "*2022 Fuel Order*", as applicable).

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rates. Securitization can mitigate near-term increases in customers' bills by using lower-priced debt financing and a longer recovery period.[3]

In Case No. PUR-2023-00112, Dominion seeks Commission approval to issue securitized utility bonds for the full under-recovered fuel balance, rather than recovering such costs from customers through the fuel factor. The primary contested issues in this case are whether the Commission should authorize Dominion's request and, if so, who pays the associated nonbypassable charge. Based on the plain language of the 2023 legislation, the General Assembly has already decided who must pay for any such nonbypassable charge, in my view. All customers provided retail electric service by Dominion during the life of the nonbypassable charge must pay, subject to limited statutory exceptions. In contrast, the General Assembly has left the Commission with the discretion to determine whether to approve securitization of the deferred fuel costs. While the record can support a range of options for recovery of these costs from customers, I recommend approval of the requested securitized bonds with periods up to approximately ten years, provided Dominion can certify, when the bonds would be issued next spring, that securitization is the economic option for customers collectively.

In Case No. PUR-2023-00067, Dominion seeks Commission approval of either: (a) a material fuel rate decrease, if securitization is approved; or (b) a material fuel rate increase, if securitization is denied. There are no contested issues in this case. Because I recommend securitization, I recommend Commission approval of the proposed fuel rate decrease, which has been in effect on an interim basis since July 1, 2023.

CASE HISTORY/HISTORY OF THE CASE/PROCEDURAL BACKGROUND

On May 1, 2023, Dominion filed with the Commission an application ("Application") pursuant to § 56-249.6 of the Code of Virginia ("Code") seeking an increase in the Company's fuel factor effective July 1, 2023.[4] Dominion filed public and confidential versions of its Application. Concurrent with its Application, the Company filed its Motion for Entry of a Protective Order.

In its Application, Dominion proposed a current period fuel factor rate of 2.8587 cents per kilowatt-hour ("¢/kWh") to recover the Company's estimated Virginia jurisdictional fuel expenses for July 1, 2023, through June 30, 2024. Dominion also presented a prior period fuel factor rate of 1.4716¢/kWh, which was designed to recover the net of: (1) a projected $708.5 million fuel under-recovery balance, as of June 30, 2023, for July 1, 2022, through June 30, 2023; (2) a projected $11.1 million over-recovery balance for the portion of the June 30, 2022 fuel deferral balance that the *2022 Fuel Order* approved for recovery during July 1, 2022, through June 30, 2023; and (3) $288.8 million of the June 30, 2022 fuel deferral balance, which the *2022 Fuel Order* approved for recovery during July 1, 2023, through June 30, 2024.[5]

[3] Ex. 20 (Reed securitization direct) at 6.
[4] On July 21, 2023, Dominion filed errata to the testimonies and exhibits filed with the Application.
[5] *See, e.g.,* Ex. 24 (Stuller fuel direct) at 2-3.

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Instead of implementing the total fuel factor rate of 4.3303¢/kWh, Dominion's Application requested that the Commission approve implementation of the current period fuel factor rate of 2.8587¢/kWh on an interim basis on July 1, 2023, while suspending implementation of the prior period fuel factor rate pending consideration of a securitization petition that the Application indicated the Company would file on or around July 3, 2023.[6]

On May 12, 2023, the Commission issued its Order Establishing 2023-2024 Fuel Factor Proceeding ("May Procedural Order") that: docketed Dominion's Application in Case No. PUR-2023-00067; directed Dominion to provide notice of the Application; established a procedural schedule on the Application, including a hearing to commence on September 5, 2023; and appointed a Hearing Examiner to conduct all further proceedings in this matter on behalf of the Commission. The May Procedural Order also, among other things, authorized Dominion to place its proposed current period factor rate of 2.8587¢/kWh into effect on an interim basis for usage on and after July 1, 2023.

On May 18, 2023, a Hearing Examiner's Protective Ruling was issued to facilitate the handling of confidential information and to permit the development of all issues in Case No. PUR-2023-00067.

On June 14, 2023, Dominion filed proof of notice, as prescribed by the May Procedural Order.

On July 3, 2023, the Company filed a petition ("Petition") with the Commission for an order[7] to finance certain deferred fuel cost balances through deferred fuel cost bonds.[8] While Dominion filed the Petition pursuant to Code § 56-249.6:1, that law was subsequently codified as Code § 56-249.6:2.[9] Specifically, Dominion's Petition sought:

i. To finance the deferred fuel costs and associated upfront financing costs through securitization;

ii. For approval of the proposed securitization financing structure;

iii. For approval to sponsor the issuance of deferred fuel cost bonds secured by the pledge of deferred fuel cost property, in one or more series or tranches in an aggregate principal amount not to exceed the securitizable balance as of the date the first series deferred fuel cost bonds are issued;

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[6] Ex. 2 (Application) at 3-6.

[7] Dominion included a proposed financing order as Exhibit B to the Petition.

[8] On July 14, 2023, Dominion filed errata to the testimonies and exhibits submitted with the Petition.

[9] The 2023 General Assembly Session enacted separate legislation that authorized deferred fuel cost securitization for Appalachian Power Company (2023 Va. Acts chs. 749, 776) and Dominion (2023 Va. Acts chs. 757, 775). Although enacted as discrete laws, each applicable to only one utility, the General Assembly assigned Code § 56-249.6:1 to both laws. To address this duplicative assignment, the Virginia Code Commission codified the Appalachian Power Company law as Code § 56-249.6:1 and the Dominion law as Code § 56-249.6:2. To reflect the Code Commission's determination, and to minimize confusion, this Report replaces references in the record to Code § 56-249.6:1 as the Dominion law with updated references to Code § 56-249.6:2.

iv. For approval of the financing costs, including upfront financing costs incurred in connection with the issuance of deferred fuel cost bonds and ongoing financing costs;

v. For approval to create deferred fuel cost property, including the right to (1) impose, bill, charge, collect and receive nonbypassable deferred fuel cost charges sufficient to recover the principal of, and interest on, the deferred fuel cost bonds and ongoing financing costs, and (2) obtain periodic formulaic adjustments to the deferred fuel cost property; and

vi. For approval of the tariff to implement the deferred fuel cost charges.[10]

On July 14, 2023, the Commission issued its Order for Notice and Hearing ("July Procedural Order") that: docketed the Petition in Case No. PUR-2023-00112; directed Dominion to provide notice of the Petition; combined Case Nos. PUR-2023-00067 and PUR-2023-00112 for all purposes including discovery, prefiling testimony, and hearing dates – without the cases or case numbers being consolidated – to the extent practicable, as set forth therein. In combining these two cases, the Commission, among other things, directed future filings to be filed in both cases and established a combined hearing on both the Application and Petition.[11] The July Procedural Order also, among other things, assigned the Hearing Examiner appointed to Case No. PUR-2023-00067 to conduct all further combined proceedings in these matters on behalf of the Commission and to file a combined report.

On July 14, 2023, a Hearing Examiner's Protective Ruling for Combined Cases was issued.

On July 18, 2023, Dominion filed its Motion for Amended Notice Requirements and for Expedited Consideration ("Motion"), requesting a four-day extension – from July 24, 2023, to July 28, 2023 – to complete the newspaper publication directed by the July Procedural Order. On July 20, 2023, a Hearing Examiner's Ruling granted the Motion.

On August 1, 2023, Dominion filed proof of notice, as prescribed by the July Procedural Order.

On August 7, 2023, Dominion filed supplemental direct testimony.

On August 9, 2023, the Commission's Staff and several respondents filed testimony on the Application and Petition.

On August 18, 2023, Dominion filed a Petition for Exemption pursuant to Code § 56-77 B. The Commission's Document Control Center included the Petition for Exemption as part of Case No. PUR-2023-00112.

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[10] Ex. 4 (Petition) at 1-2.

[11] The July Procedural Order directed future filings in Case No. PUR-2023-00112 to also be filed in Case No. PUR-2023-00067. A Hearing Examiner's Ruling issued on July 14, 2023, directed that future filings in Case No. PUR-2023-00067 also be filed in Case No. PUR-2023-00112.

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On August 22, 2023, Dominion filed rebuttal testimony.

Notices of participation were filed in both proceedings by the following: the Virginia Committee for Fair Utility Rates ("Committee"); Appalachian Voices; the Office of the Attorney General, Division of Consumer Counsel ("Consumer Counsel"); Virginia Energy Purchasing Governmental Association ("VEPGA"); Calpine Energy Solutions, LLC ("Calpine"); Direct Energy Business, LLC, and Direct Energy Services, LLC (collectively, "Direct Energy"); the Virginia Poverty Law Center ("VPLC"); and the Data Center Coalition ("Coalition").[12] The Coalition for Community Solar Access ("CCSA") filed a notice of participation in Case No. PUR-2023-00067 only.

The portion of the combined hearing that the May Procedural Order scheduled to receive any public witness testimony on September 5, 2023, was cancelled after no one signed up to testify.

On September 6-7, 2023, the combined hearing was conducted in the Commission's courtroom to receive the evidence of the case participants for a combined evidentiary record.[13] Joseph K. Reid, III, Esquire, Elaine S. Ryan, Esquire, Jontille D. Ray, Esquire, Briana M. Jackson, Esquire, and Lisa R. Crabtree, Esquire, appeared on behalf of Dominion. E. Grayson Holmes, Esquire, represented Appalachian Voices. Victoria L. Howell, Esquire, represented Calpine. Eric J. Wallace, Esquire, represented Direct Energy. Eric M. Page, Esquire, represented the Coalition. S. Perry Coburn, Esquire, and Christian F. Tucker, Esquire, represented the Committee. Michael J. Quinan, Esquire, appeared on behalf of VEPGA. William T. Reisinger, Esquire, represented VPLC. C. Meade Browder, Jr., Esquire, and John E. Farmer, Jr., Esquire, represented Consumer Counsel. Staff was represented by William H. Chambliss, Esquire, Arlen K. Bolstad, Esquire, Frederick D. Ochsenhirt, Esquire, and K. Beth Clowers, Esquire.

PUBLIC COMMENTS

In Case No. PUR-2023-00067, two public comments were submitted. Newport News Shipbuilding, a large industrial customer of Dominion, urged the Commission to strongly consider securitization as an option to spread fuel costs over a longer period. Newport News Shipbuilding indicated that this option would help alleviate near-term rate shock that would be particularly detrimental to large industrial customers whose fuel factor charges make up a significant portion of their overall electric bills. Lisa Kibler, a Roanoke resident, expressed concern about affordability and recommended no more rate increases.

In Case No. PUR-2023-00112, five public comments were submitted. Delegate Kathy J. Byron (22nd District), Chairman of the House Committee on Commerce and Energy, encouraged thorough consideration of fuel securitization. She described securitization as a complex but powerful tool that, if used judiciously, can lessen the immediate rate impact of fuel

[12] The Coalition filed a timely notice of participation in Case No. PUR-2023-00067. On August 30, 2023, the Coalition filed a Notice of Participation and Motion to Accept Late Filing to intervene in Case No. PUR-2023-00012, which was granted by a Hearing Examiner's Ruling issued on September 1, 2023.

[13] At its request, CCSA was excused from the hearing.

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cost recovery and promote rate stability for electric customers. Delegates Terry G. Kilgore (1st District), Israel O'Quinn (4th District), and Todd Pillion (40th District), jointly urged the Commission to make every effort to promote rate stability and to carefully consider fuel securitization. They stated, among other things, that price increases across the economy in the past two years have been difficult for their constituents. Delegate Scott A Wyatt (97th District) encouraged the Commission to authorize fuel securitization. Among other things, he asked the Commission to bear in mind recent financial strains on households and to prioritize rate stability. Senator David W. Marsden (37th District) asked the Commission to consider the merits of fuel securitization. In deciding whether to authorize securitization, he urged the Commission to keep rate stability and the successful securitizations in other states top of mind. He supports mitigating the immediate bill impact associated with fuel costs and stabilizing rates to the greatest extent possible. The Virginia Chamber of Commerce supports rate stability, which it asked the Commission to support when ruling on whether to authorize securitization.

SUMMARY OF THE COMBINED EVIDENTIARY RECORD

Dominion – Direct: Fuel Factor

In support of its fuel factor Application, Dominion offered the direct testimonies of **J. Scott Gaskill**, General Manager – Regulatory Affairs for Dominion; **Whitney W. Johnson**, Manager of Energy Market Analysis in the Corporate Strategy Department of Dominion Energy, Inc. ("DEI"); **Katherine E. Farmer**, Energy Market Strategic Advisor – Integrated Strategic Planning Department of the Company; **Dale E. Hinson**, Manager of Market Origination for the Company; **Tom A. Brookmire**, Manager of Nuclear Fuel Procurement; **Jacqueline R. Vitiello**, Director of Power Generation Regulated Operations for the Company; **Ronnie T. Campbell**, Manager of Accounting – Dominion and Contracted Assets for DEI; and **Timothy P. Stuller**, Regulatory Consultant for the Company.

Mr. Gaskill provided an overview of the two components of the Company's proposed fuel factor rate. First, Dominion proposed a current period rate of 2.8587¢/kWh to recover approximately $2.292 billion of Virginia jurisdictional fuel expenses projected by the Company for the July 1, 2023, through June 30, 2024 fuel year. Second, Dominion calculated that a 1.4716¢/kWh prior period rate would recover approximately $986 million of deferred fuel expenses that the Company projected to be approximately $1.275 billion as of June 30, 2023. The remaining amount of $289 million is the last tranche of the June 30, 2022 fuel deferral balance that would be recovered during the fuel year beginning July 1, 2024, under the three-year mitigation plan approved in Case No. PUR-2022-00064.[14]

Rather than implementing a total fuel factor rate of 4.3303¢/kWh, Mr. Gaskill presented an alternative supported by the Company. Specifically, Dominion recommended Commission approval of the 2.8587¢/kWh on an interim basis, while suspending implementation of the prior period fuel factor rate pending Commission consideration of a securitization proposal by the Company. He explained that legislation enacted during the 2023 General Assembly Session authorized the Company, with Commission approval, to establish a special purpose entity that

[14] Ex. 5 (Gaskill fuel direct) at 3. $1.275 billion - $289 million = $986 million. *See also* Ex. 25 (Stuller securitization direct) at 3.

could issue securitized bonds to finance the fuel deferral balance as of June 30, 2023.[15] For a residential customer using 1,000 kWh per month, he provided the following table to show indicative bill impacts with an annual revenue requirement over an assumed ten-year securitization period compared to bill impacts without securitization.[16]

Indicative Fuel Securitization Bill Impact

		Jul-22	Jul-23	Jul-24	Jul-25	Jul-26	Jul-27	Jul-28	Jul-29	Jul-30	Jul-31	Jul-32	Jul-33
Standard Recovery Option													
'21 Fuel Deferral	$/MWh		*$4.31*	*$4.37*	-	-	-	-	-	-	-	-	-
'22 Fuel Deferral	$/MWh		*10.41*	-	-	-	-	-	-	-	-	-	-
Total Deferral Charge	$/MWh		$14.72	$4.37	-	-	-	-	-	-	-	-	-
(+) Base Fuel Projection	$/MWh		28.59	27.58	29.25	28.61	27.43	26.79	26.03	26.28	27.30	29.01	30.23
Total - Standard Option	$/MWh	$35.38	$43.30	$31.95	$29.25	$28.61	$27.43	$26.79	$26.03	$26.28	$27.30	$29.01	$30.23
Fuel Securitization Option													
Securitization Charge	$/MWh		-	$2.41	$2.30	$2.16	$2.08	$2.00	$1.90	$1.81	$1.70	$1.60	$1.50
(+) Base Fuel Projection	$/MWh		28.59	27.58	29.25	28.61	27.43	26.79	26.03	26.28	27.30	29.01	30.23
Total - Fuel Securitization	$/MWh	$35.38	$28.59	$29.99	$31.55	$30.78	$29.50	$28.79	$27.93	$28.09	$29.00	$30.60	$31.73
Total Δ Savings / (Cost)	$/MWh		$14.72	$1.95	($2.30)	($2.16)	($2.08)	($2.00)	($1.90)	($1.81)	($1.70)	($1.60)	($1.50)

In addition to preventing a sharp increase in monthly fuel rates for the fuel year beginning July 1, 2023, Mr. Gaskill indicated that the securitization proposal also provides relief from the remaining fuel deferral under the three-year mitigation plan for the fuel year beginning July 1, 2024. He recognized that the securitization rate would remain on customers' bills longer than the prior period rate, but he expects that the securitization rate would provide an overall benefit to customers on a net present value basis. He made clear that the above figures are an illustrative estimate that are subject to revision based on factors such as eligible customer opt-out elections, prevailing interest rates, and bond tenor.[17]

Mr. Gaskill explained his understanding of the process established by the 2023 legislation for customers with demand exceeding five megawatts ("MWs") to opt out of securitization charges. He indicated that if all approximately 200 eligible customer accounts opt out, Dominion would collect approximately $250 million and the securitization balance would decrease from $1.275 billion to $1.025 billion. While, at the time the Application was filed, Dominion had provided such customers estimates of the pro rata share of the fuel deferral balance they would pay to opt out, Mr. Gaskill cautioned that the final pro rata share amounts could not be known until after June 30, 2023, when the fuel year is complete. He added that the 2023 legislation directs eligible customers to inform Dominion of their opt-out elections within 30 days of the fuel factor Application's filing.[18]

Mr. Gaskill also explained how the Company plans to address provisions of the 2023 legislation that partially exempt from securitization charges certain customers that received electric supply from a company other than Dominion. Unlike the voluntary opt-out election,

[15] Ex. 5 (Gaskill fuel direct) at 4. When his direct testimony was filed on May 1, 2023, Mr. Gaskill notified the Commission of Dominion's plan to file a petition for securitization financing on or about July 3, 2023. *Id.* at 9.
[16] *Id.* at 6 (table number omitted).
[17] *Id.* at 6.
[18] *Id.* at 7-8 and attached Sched. 1.

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Mr. Gaskill indicated that partially exempt customers would automatically be billed their share of the deferral fuel obligation and would be removed from the securitization balance. These customers will be notified once the final deferral balance and customer usage are known, likely around August 2023. At the time of the Application, the Company estimated that there would be approximately 600 such customer accounts with a total balance of approximately $5 million.[19]

Mr. Gaskill described the Company's proposal to change the order in which market-based generation revenues from its Rate Schedule MBR and SCR Rate Schedule are credited to the Company's base rates and fuel rates. Currently, the generation revenues the Company receives from these customers go to fund (1) all approved generation riders and (2) the customer's share of the Company's actual monthly system fuel expense. After this occurs, any remaining revenues are allocated to base rates. As explained by Mr. Gaskill, this means that during periods of high (low) market power prices, more (less) revenue is allocated to base rates than would typically be experienced under cost-of-service rates. He indicated that PJM Interconnection LLC ("PJM") market volatility often leads to large swings from excess to shortfalls in base rate revenues. During periods of high power prices, "excess" market-based revenue goes to base rates at the same time the fuel factor is increasing due to purchased power expense and system fuel cost increases. As proposed, the generation revenues received from these customers would fund: (1) all approved generation riders; and (2) base rates under Schedules GS-3 or GS-4. After this occurs, any remaining revenues would be allocated to fuel. In the near-term, including in this case, he expects this change would lower the fuel factor. Assuming the Company's proposed change becomes effective March 2024, consistent with Dominion's expected resolution of the 2023 biennial review, the Company projects $13.6 million in additional revenue would go to fuel for the four months (March 2024 through June 2024) in the current period fuel year based on current market power price forwards. If in effect for the entire next fuel year (July 2024 through June 2025), Dominion estimates nearly $106 million would go to fuel.[20] He provided a table to illustrate the effect of this change based on the Company's projections.[21]

In the long-term, Mr. Gaskill expects this change would result in more stable, less volatile fuel factor rates because the proposed methodology would function as a "nearly perfect, natural hedge against purchased power expense." He indicated that in a high commodity environment like the last two years, "excess" market-based rate revenues would have offset much of the increase to purchase power and lowered the fuel deferral. In a low commodity price environment, market-based rate revenues would decrease and the "shortfall" would be offset by lower purchased power expense.[22]

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[19] *Id.* at 8-9. Another 2,400 customers received supply service from a competitive service provider or under a market-based tariff rate for all or part of July 2020 through June 2023. Because those customers did not have a positive pro rata share, they would be exempted or effectively exempted. Tr. at 121 (Gaskill).

[20] Ex. 5 (Gaskill fuel direct) at 11-13.

[21] *Id.* at 14 (table number omitted).

[22] *Id.* at 13-15.

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Whitney Johnson described the source data and method used by the Company to project prices for the following commodities: natural gas,[23] oil,[24] coal,[25] emissions allowances,[26] and power.[27] He also sponsored schedules showing the Company's price projections for these commodities during July 1, 2023, through June 2024 (the fuel year),[28] and historic prices during May 1, 2022, through April 1, 2023.[29]

Ms. Farmer explained the Company's process and models used for projecting total system energy requirements and fuel expenses.[30] She sponsored a schedule showing Dominion's total energy requirement at the generator output level, and the sales forecast (total system and Virginia jurisdictional) for the current period of July 2023 through June 2024.[31]

Ms. Farmer provided the following table to show how commodity prices have decreased since the Company's last fuel factor filing.[32]

COMMODITY	3/29/2022 JULY 22-JUNE 23	3/29/2023 JULY 23-JUNE 24	
Coal (CAPP-FOB) ($/ton)	111.75	87.50	-22%
Oil (Crude-WTI) ($/bbl)	90.01	71.19	-21%
Gas (Henry Hub) ($/mmbtu)	5.06	3.24	-36%
Gas (Zone 5) ($/mmbtu)	6.38	4.92	-23%
Gas (Z6NNY) ($/mmbtu)	5.41	3.72	-31%
Power (7 x 24 PJM West Hub) ($/MWh)	61.33	45.36	-26%
Nuclear (expense basis) ($/MWh)	5.85	5.86	0%

She attributed these price decreases to increased coal, oil, and gas production and lower demand due to mild weather.[33] She indicated that the Company's $2.75 billion projected system fuel expense for the current period is lower than in the prior fuel case primarily due to the commodity price forecast.[34]

For the current period, Ms. Farmer sponsored schedules showing Dominion's projected equivalent availability rates, planned outage dates, capacity factors, and equivalent forced outage rates, by generation unit.[35] She also sponsored schedules showing the Company's forecasted fuel consumption and heat rates, by month and by unit, for the current period.[36] She sponsored a

[23] Ex. 13 (W. Johnson fuel direct) at 2 and attached Sched. 2. As used herein, "W. Johnson" or "Whitney Johnson" is used to distinguish this Company witness from Company witness Darius Johnson.
[24] *Id.* at 3 and attached Sched. 2.
[25] *Id.*
[26] *Id.* at 4-5 and attached Sched. 2.
[27] *Id.* at 6 and attached Sched. 2.
[28] *Id.* at attached Sched. 1.
[29] *Id.* at attached Sched. 3.
[30] Ex. 14 (Farmer fuel direct) at 2-5.
[31] *Id.* at 5 and attached Sched. 1.
[32] *Id.* at 5-6.
[33] *Id.* at 5.
[34] *Id.* at 6. *See also id.* at attached Sched. 2 (showing, by month and supply type, forecasted system energy, forecasted system fuel expense, and forecasted average cost for July 2023 through June 2024).
[35] *Id.* at attached Sched. 3; Ex. 14-C (Farmer fuel direct) at attached Conf. Scheds. 3, 4.
[36] Ex. 14 (Farmer fuel direct) at attached Confidential Scheds. 6, 7.

schedule showing projected fuel costs for the three months of the prior period (April, May, and June 2023) for which Dominion did not have actual results when the Application was filed.[37]

Ms. Farmer explained how Dominion's PLEXOS modeling accounts for PJM participation. She sponsored the Company's calculation of a projected $1.1 million reduction to fuel expense based on the statutory 75%/25% sharing of Dominion's projected 412,500 megawatt-hours ("MWh") of off-system sales during the current period.[38] She identified a projected $6.5 million level of excess financial transmission right revenues credited against forecasted system fuel expense.[39] She also identified a $215.7 million level of projected natural gas storage and pipeline transportation expenses and contract expenses included in the Company's projected system gas fuel expense.[40]

Ms. Farmer discussed changes to Dominion's generating capacity during the prior period and current period that the Company expected when the Application was filed. During the prior period: (1) approximately 151 MW of Company-owned and PPA solar facilities were placed into service or were scheduled to be placed in service; and (2) the remaining Chesterfield coal units (1014 MW) and Yorktown unit 3 (790 MW) were planned for retirement in May 2023. In the current period, Dominion planned to add approximately 648 MW of Company-owned and PPA solar facilities.[41]

Ms. Farmer explained that the benefits of new solar facilities – estimated at $55.0 million for the fuel year – will be removed from the fuel factor and captured instead in the appropriate riders. The fuel benefit of Rider CE and Rider PPA resources, where the Rider PPA benefit is net of cost, is reflected in the respective rider filings, as directed by the Commission.[42]

Ms. Farmer indicated that while Regional Greenhouse Gas Initiative ("RGGI") compliance costs affect generation dispatch, such costs are currently recovered through a separate rate adjustment clause (not the fuel factor). For purposes of modeling in the instant fuel factor case, Dominion included the impact of RGGI through December 31, 2023, when the Company anticipates the Commonwealth will withdraw from RGGI.[43]

Turning to historic data, Ms. Farmer sponsored schedules showing for April 2022 to March 2023: (i) system energy requirements;[44] (ii) system level monthly summary of actual supply volumes, supply costs, and average cost by supply type;[45] (iii) equivalent availability rates, capacity factors, outage periods and explanations, by generation unit;[46] (iv) actual fuel

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[37] *Id.* at attached Sched. 8.

[38] *Id.* at 7 and attached Sched. 5. *See* Code § 56-249.6 D 1.

[39] Ex. 14 (Farmer fuel direct) at 8.

[40] *Id.* This amount includes the Company's estimate of projected purchase and sale of excess firm pipeline transportation capacity. *Id.*

[41] *Id.* at 9. "PPA" refers to power purchase agreements.

[42] *Id.*

[43] *Id.* at 10.

[44] *Id.* at attached Sched. 9.

[45] *Id.* at attached Sched. 10.

[46] *Id.* at attached Sched. 11; Ex. 14-C (Farmer fuel direct) at attached Conf. Sched. 11.

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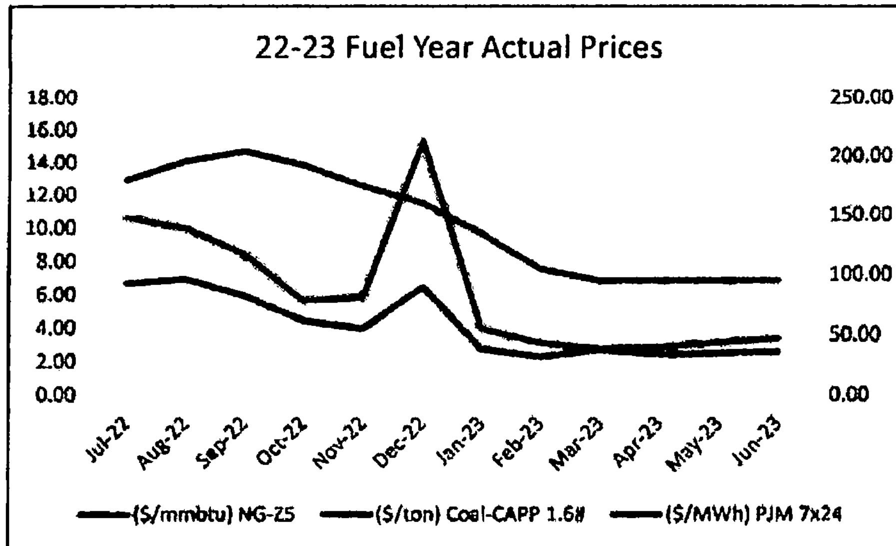
requirements,[47] equivalent forced outage rates,[48] and heat rates,[49] by unit; and (v) abnormal operating events.[50] She attributed the Company's large fuel under-recovery balance from the prior period to elevated natural gas, coal, and power prices during the first half of the prior period.[51] She provided the following chart to illustrate the higher prices during those months.[52]



Mr. Hinson described the Company's fossil fuel procurement practices, including any recent changes to such practices. Mr. Hinson discussed the natural gas commodity price increase beginning in 2021 that was largely due to concerns about storage inventories to meet winter 2022/2023 demand. By summer 2022, these concerns were particularly heightened in Europe as Russian imports began to be reduced in response to certain European nations' opposition to the war in Ukraine. This caused liquified natural gas ("LNG") prices in Europe and Asia to increase, leading to increased LNG exports by domestic suppliers. Mr. Hinson explained that natural gas commodity prices then decreased due to lower regional consumption, easing international LNG demand, continued strength in domestic natural gas production, and a healthy domestic natural gas storage inventory at the start of the 2023 injection season.[53] In Virginia, notwithstanding an unseasonably cold Christmas 2022 weekend, temperatures for winter 2022/2023 were approximately 10% warmer than 2021/2022 and 20% warmer than the 30-year normal.[54]

However, Mr. Hinson indicated that Europe and Asia LNG markets continue to affect natural gas pricing in the United States. As of March 2023, 18% of domestic natural gas

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[47] Ex. 14-C (Farmer fuel direct) at attached Conf. Sched. 12.
[48] *Id.* at attached Conf. Sched. 13.
[49] *Id.* at attached Conf. Sched. 14.
[50] *Id.* at attached Conf. Sched. 15.
[51] Ex. 14 (Farmer fuel direct) at 10-11.
[52] *Id.* at 11.
[53] Ex. 15 (Hinson fuel direct) at 2-3. March 2023 ending inventories were 21% above the 5-year inventory level, which represents a 32% increase compared to March 2022. *Id.* at 3.
[54] *Id.* at 3.

production was exported to international markets, as producers seek to obtain considerably higher prices from overseas (primarily LNG) markets.[55]

Mr. Hinson sees a similar supply and price dynamic in coal markets. United States production has been used in Europe as a replacement to Russian coal. As a result, domestic coal prices increased during summer 2022, but recently declined.[56]

According to Mr. Hinson, Dominion has not changed its hedging program, which it believes has a material mitigating effect on the Company's fuel costs. He reported that for the period starting July 2022, Dominion's in-system generation output costs decreased by approximately 7% compared to the forecasted costs included in the current fuel rate.[57]

Mr. Hinson discussed other fuel cost mitigation activities deployed by Dominion, including: natural gas seasonal firm transportation contract changes and acquisition of incremental pipeline capacity; natural gas daily/monthly/seasonal monetization efforts for select pipeline contract segments; and coal rail and trucking service contracting paired with a layered approach for coal supply contracts, diversifying oil inventory storage and replenishment sources, and maintaining offsite biomass inventory to maintain sufficient fuel supplies.[58] He indicated that (short-term and long-term) pipeline capacity acquisitions are a response to pipeline constraints and high price volatility in the Mid-Atlantic region where the Company's gas-fired generation fleet is located. He cited the lack of intra-day natural gas supply during the four-day Christmas weekend of Winter Storm Elliott as the latest example of the natural gas fuel demand and supply imbalance in the region.[59]

In Mr. Hinson's view, Winter Storm Elliott illustrated the importance of alternate fuel supplies (and associated firm access), both onsite and offsite. Once day-ahead trading was completed, intra-day gas supply opportunities were inadequate. Consequently, gas generators over-relying on intra-day gas supply markets struggled to provide incremental generation.[60]

Mr. Hinson reported that Dominion's efforts pursuing incremental opportunities for firm pipeline transportation (including storage), natural gas peaking services, and onsite fueling (LNG and/or oil) remain ongoing. He cited the current construction and regulatory uncertainties associated with new natural gas pipelines as a reason that peaking services and onsite fueling could be effective options.[61]

For natural gas procurement, Dominion manages a portfolio of day-ahead, monthly, seasonal, and multi-year physical gas supply purchases. Dominion also evaluates and reconfigures a diverse portfolio of pipeline transportation and storage contracts, with various term expirations, for access to multiple natural gas supply and trading points from the Marcellus region to the Southeast region. Dominion also participates in short-term, interstate pipeline

[55] *Id.*
[56] *Id.* at 4.
[57] *Id.*
[58] *Id.* at 5.
[59] *Id.* at 6.
[60] *Id.*
[61] *Id.* at 7.

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capacity markets. Natural gas accounted for as much as 46% and, on average, 40% of the Company's generation during the first nine months of the prior period.[62]

Mr. Hinson provided a table illustrating the monetized value of the Company's unused portion of its natural gas pipeline capacity portfolio on days when the system is not constrained.[63] He testified that while the estimated monetized value has been, and continues to be, considerably diminished due to the "during times of non-constraint" designation, the analysis requires significant time and resources to complete. For these reasons, he recommended that the Company be relieved from the requirement to report such information in future fuel factor filings. However, Dominion would continue to report the results of its natural gas capacity release and third-party sales monetization activities in its annual Fuel Procurement Strategy Report, as it currently does.[64]

Mr. Hinson indicated that Dominion's coal procurement practices have not changed. The Company continues to procure its long-term coal requirements primarily through periodic solicitations and secondarily on the spot market.[65]

Nor have Dominion's biomass procurement practices changed, according to Mr. Hinson. Dominion continues to use a varied strategy depending on the geographical region of its four stations that burn biomass, although all four stations receive wood deliveries via truck.[66]

Similarly, Mr. Hinson indicated that Dominion's oil procurement practices have not changed. Trucks, vessels, barges, and pipelines transport oil to Dominion's stations and third-party storage locations.[67]

Mr. Brookmire reviewed Dominion's actual and projected nuclear fuel costs for the prior period of July 2022 through June 2023; and for the current period of July 2023 through June 2024. He explained that the price of "front-end" nuclear fuel cost components – most notably, conversion and enrichment service prices – have increased since Russia invaded Ukraine.[68] Market pricing for conversion and enrichment are being driven by the pricing required to support long-term investment in new Western production capacity (and replace dependence on Russian supply). Uranium pricing is also now more tied to incremental pricing required for new production investment required to support anticipated future global growth of nuclear generation. Domestic nuclear fuel fabrication pricing is expected to continue to increase, although there is no active spot market to help identify price trends.[69]

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[62] *Id.* at 7-8.
[63] *Id.* at 8-9.
[64] *Id.* at 10-11. The fuel factor reporting requirement was first ordered in Case No. PUR-2018-00067.
[65] *Id.* at 11.
[66] *Id.* at 11-12.
[67] *Id.* at 12.
[68] Ex. 16 (Brookmire fuel direct) at 2.
[69] *Id.* at 3. Mr. Brookmire recognized that the parent companies for both domestic nuclear fuel fabricators have experienced financial distress, which is likely to put upward pressure on fabrication costs and nuclear fuel engineering services. *Id.*

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During February 2022 to March 2023, the market price for spot conversion increased approximately 147% and term base escalated prices for conversion increased approximately 47%. Since early 2022, the market price for spot enrichment increased approximately 117% and term base escalated prices for enrichment increased approximately 115%.[70]

During late February through March 2023, the market price for spot uranium has increased by 4% and term base escalated prices for uranium increased by approximately 21%. Compared to conversion and enrichment, a disruption of Russian uranium supply would not be as significant because of numerous opportunities to restart idled uranium production as well as developing new production in various countries, worldwide.[71]

The Ukraine conflict has not caused any significant impacts on the fabrication market, as Russian fabrication is not relied upon by Western utilities.[72]

Mr. Brookmire indicated that the changes in market costs have impacted Dominion's projected near-term costs. However, such impacts are not significant because Dominion's mix of longer-term contracts reduces exposure to market volatility and the 18-month refueling cycle delays the full effect of significant price changes.[73]

Mr. Brookmire testified that, to date, none of the Company's existing nuclear fuel contracts have been affected by the Ukraine conflict. However, Mr. Brookmire acknowledged the possibility of U.S. government sanctions, bans, or other trade restrictions on Russian nuclear fuel supply or a decision by Russia to limit supply deliveries to the U.S. He indicated that Dominion will take affirmative steps as necessary to ensure its nuclear fuel supply. While increased market prices could result if Russian supply becomes unavailable to the West, Mr. Brookmire expects a gradual impact of any such increases due to the Company's significant levels of existing contract coverage for several years, inventory, and the 18-month refueling cycle.[74]

Mr. Brookmire explained how Dominion's nuclear fuel expense rates were developed based on expected plant operating cycles and the overall cost of nuclear fuel, including front-end component costs and back-end fuel cycle costs.[75] He sponsored a schedule showing that actual costs for July 2022 through June 2023 were 1.68% higher than forecasted.[76] He also showed the Company's projected nuclear expense for each month during July 2023 through June 2024 (the fuel year), which is expected to decrease by 1.1% compared to actual costs for July 2022 through June 2023.[77]

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[70] *Id.* at 4-5.
[71] *Id.* at 4.
[72] *Id.* at 5.
[73] *Id.*
[74] *Id.* at 6.
[75] *Id.* at 7-9.
[76] *Id.* at attached Sched. 1. Updated estimates, rather than actuals, were used for the months April 2023, May 2023, and June 2023. *Id.*
[77] *Id.* at attached Scheds. 2, 3. As noted above, Mr. Brookmire's actual amount for July 2022 through June 2023 incorporates three months of estimates.

Ms. Vitiello described the coordination of Dominion's operations in the PJM wholesale markets. She provided a table showing the volume of economy energy purchases by Dominion from the PJM market during the last five calendar years has fluctuated between 3.9 million MWh (2020) to 19.8 MWh (2022).[78]

She reported that for the period April 1, 2022, through March 31, 2023, Dominion purchased approximately 19.6 million MWh of net economy energy from PJM at an overall cost of approximately $1.56 billion.[79] As factors contributing to the increased volume of energy purchases during the last year, she identified an increase in demand, increase in natural gas prices, and the effect of RGGI increasing the dispatch cost of Virginia's carbon-emitting units.[80]

Ms. Vitiello expects energy purchases will increase if demand increases and generation volume decreases. She pointed out that the Company's generation capacity has generally decreased the past few years due to unit retirements and provided the following table to compare capacity and demand over the past five calendar years.[81]

Year	Summer Generation Capacity (MW)	Dom Zone Demand (MWh)
2018	21,512	102,505,460
2019	20,063	102,460,592
2020	19,391	100,312,919
2021	19,582	107,812,774
2022	19,598	114,024,450

Mr. Campbell presented the Virginia jurisdictional fuel expenses incurred by Dominion during July 2022 through March 2023, which he calculated to be $2,395,075,815.[82]

For April 2022 through March 2023, Mr. Campbell presented off-system sales margins of $11,503,735, and a $7,076,043 Virginia jurisdictional share of 75% of such margins, credited against fuel factor expenses.[83]

As of March 31, 2023, Mr. Campbell reported that Dominion's Virginia jurisdictional fuel deferral balance for the 2022-2023 fuel year was $795,742,914.[84] Of the $288,824,244 prior period deferred fuel balance under-recovered as of June 30, 2022, Mr. Campbell indicated that $226,509,775 was recovered as of March 31, 2023, leaving an under-recovery balance of $62,314,468, as of that date.[85]

Mr. Campbell indicated that, including the mitigated balance of $577,648,488, the total mitigated deferred fuel balance as of March 31, 2023, was $1,435,705,871. He also provided

[78] Ex. 17 (Vitiello fuel direct) at 3.
[79] *Id.* at 2.
[80] *Id.* at 4.
[81] *Id.*
[82] Ex. 18 (Campbell fuel direct) at 2, attached Sched. 1.
[83] *Id.* at 2.
[84] *Id.* at 2, attached Sched. 1.
[85] *Id.* at 2-3, attached Sched. 2.

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balances showing the Company's calculation of its deferred fuel balance for April 2022 through June 2022.[86]

Mr. Campbell indicated that the Application credits a $1,648,722 US-3 and US-4 solar facility performance guarantee adjustment to the fuel deferral balance.[87]

Mr. Stuller presented the calculation of the Company's proposed current fuel factor of 2.8587¢/kWh, which is designed to recover Dominion's estimated Virginia jurisdictional fuel expenses of $2.292 billion for the period July 2023 through June 2024, reduced by: (1) $362.5 million for the allocated fuel expense for market-based rate customers; and (2) $13.6 million associated with Company witness Gaskill's proposed accounting change for market-based rate accounting.[88] Implementation of the proposed current fuel factor represents a fuel revenue decrease of approximately $541.2 million (compared to the prior period of July 2022 through June 2023).[89]

Mr. Stuller also presented the calculation of the Company's proposed prior period factor of 1.4716¢/kWh, which is designed to recover approximately $986.2 million. The $986.2 million amount is the net of: (1) $708.5 million – the projected June 30, 2023 under-recovery balance of July 1, 2022, through June 30, 2023 expense; (2) ($11.1 million) – the projected June 30, 2023 over-recovery balance of the June 30, 2022 prior period expense designed to be recovered July 1, 2022, through June 30, 2023; and (3) $288.8 million – the second tranche of prior period expense from June 30, 2022 (*i.e.*, one-third of the mitigated balance from June 30, 2022).[90]

While Mr. Stuller reiterated Dominion's proposal to approve the current period factor rate of 2.8587¢/kWh for the 2023-2024 fuel year, he indicated that should the Commission deny the Company's securitization proposal, Dominion would support a fuel factor rate of 4.3303¢/kWh.[91]

To show the effect of Dominion's proposed fuel factor rate, Mr. Stuller provided illustrative bill comparisons for several rate schedules.[92] For a residential customer using 1,000 kWh per month, the typical bill would decrease by $6.79 – a 4.8% decrease during summer months and a 5.0% decrease during base months.[93] Should the Commission deny the Company's securitization proposal, Mr. Stuller calculated that the typical bill for a residential customer using 1,000 kWh per month would increase by $7.92 – a 5.6% increase during summer months and a 5.8% increase during base months.[94]

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[86] *Id.* at 3.
[87] *Id.* at 4.
[88] Ex. 24 (Stuller fuel direct) at 1-2, 4, attached Scheds. 1-2.
[89] *Id.* at 1.
[90] *Id.* at 2-3, 5, attached Scheds. 4-5.
[91] *Id.* at 6. He sponsored revised fuel tariffs for each alternative. *Id.* at attached Scheds. 9-10.
[92] *Id.* at attached Sched. 11.
[93] *Id.* at 6-7, attached Sched 11, p. 1. For billing purposes, Dominion's summer months are June through September. *Id.* at 7.
[94] *Id.* at 7, attached Sched. 12, p. 1.

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Dominion – Direct: Fuel Securitization

In support of its securitization Petition, Dominion offered the direct testimonies of **Darius A. Johnson,** Vice President and Treasurer of DEI; **John J. Reed**, Chairman and Chief Executive Officer, Concentric Energy Advisors, Inc.; **Charles N. Atkins II**, Chief Executive Officer of Atkins Capital Strategies LLC; **Elizabeth B. Lecky**, Manager of Regulation in the Company's Regulatory Accounting Department; and **Mr. Stuller**.

Darius Johnson indicated that securitization of the deferred fuel balance would significantly mitigate abrupt and significant fuel factor increases over the upcoming fuel period. To protect customers from such increases, Dominion recommended a securitization of this balance over a term no longer than approximately 10 years, unless the Commission has a clear preference for a shorter term.[95]

Mr. Johnson sponsored the following:[96]

- Form of Deferred Fuel Cost Property Purchase and Sale Agreement
- Form of Deferred Fuel Cost Property Servicing Agreement
- Form of Indenture
- Form of LLC Agreement
- Form of Administration Agreement
- Estimate of Upfront and Ongoing Financing Costs
- Proposed Financing Order

Mr. Johnson attributed the large June 30, 2023 fuel deferral balance primarily to significant marketplace commodity price increases during the 2021-2022 fuel year and implementation of the three-year mitigation plan approved in last year's fuel proceeding.[97]

Mr. Johnson provided his view of how securitization under Code § 56-249.6:2 would work. The statute, which became effective July 1, 2023, allows Dominion, with Commission approval, to use a special purpose entity to issue securitized bonds to finance the fuel deferral balance. The bond proceeds would be used to satisfy the unrecovered balance. Amortization of the bonds would be structured to provide an annual revenue requirement over the term of the securitization period. Applicable customers would be billed a nonbypassable charge, on a per kWh basis, beginning soon after bond issuance, which Mr. Johnson expects would occur in early 2024. The securitization charge would be subject to periodic true-ups to ensure timely receipt of the revenue requirements associated with the bonds.[98]

Like Company witness Gaskill, Mr. Johnson discussed Dominion's approach to implementing the legislative opt out for customers with demand exceeding five MWs and the legislative exemption (full and partial) for certain customers that received electric supply from a

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[95] Ex. 19 (D. Johnson securitization direct) at 1-2, 4.

[96] *Id.* at attached Scheds. 1-6; Ex. 4 (Petition) at attached Ex. B. Mr. Johnson co-sponsored Dominion's proposed financing order with Company witness Atkins.

[97] Ex. 19 (D. Johnson securitization direct) at 3.

[98] *Id.* at 4.

company other than Dominion during the period when the deferral balance was incurred.[99] Mr. Johnson reported that only approximately 28% of the customers eligible to opt out have elected to do so, representing an estimated fuel deferral balance share of approximately $11.8 million.[100]

At the time of its July 3, 2023 Petition, Dominion estimated that the amount proposed for securitization would be $1.2578 billion of deferred fuel costs, plus financing costs.[101] As discussed below, Dominion subsequently updated this figure to $1.268 billion.[102]

According to Mr. Johnson, Dominion does not have a financial incentive to support, or not support, securitization. Dominion would not earn its allowed equity rate of return on the recovery of the deferred fuel balance. Rather, the deferred fuel cost bonds would be stand-alone financing vehicles with the financing costs (interest) paid to bondholders.[103] Mr. Johnson noted that Internal Revenue Service ("IRS") guidance requires Dominion to make an equity contribution of at least 0.5% of the initial securitized bond balance to the special purpose entity issuer. However, he indicated that Dominion has voluntarily agreed to limit its return on this investment to a debt-level[104] return.[105]

Mr. Johnson explained that the Company analyzed two transaction structures for securitized bonds, both issued in two or more tranches: one with a scheduled final maturity date of approximately seven years and another with a scheduled final maturity date of approximately ten years. The bond proceeds would be used to satisfy the deferred fuel costs and pay upfront financing costs. The estimated level of the annual revenue requirement, including ongoing financing costs, would be approximately $220.626 million and $165.751 million for the seven- and ten-year options, respectively.[106]

In discussing the benefits associated with securitization, Mr. Johnson underscored there would be a net decrease in fuel factor charges to customers for the next two fuel periods, spanning July 1, 2023, through June 30, 2025, compared to fuel factor charges previously in effect.[107] He provided the following table to illustrate the estimated net bill reduction during these two years for a residential customer with monthly usage of 1,000 kWh.[108]

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[99] *Id.* at 5.
[100] *Id.* at 6.
[101] *Id.* This estimate took into account customers that opted out and are exempt from securitization. *Id.*
[102] Ex. 6 (Gaskill supplemental direct) at 2.
[103] Ex. 19 (D. Johnson securitization direct) at 6.
[104] During discovery, Dominion clarified that it would limit its ongoing equity return on the 0.5% contribution to a debt coupon rate resulting from the bond issuance. Ex. 38 (Myers) at Appendix C, pp. 81-82.
[105] Ex. 19 (D. Johnson securitization direct) at 7, n.2, and 11. Company witness Atkins confirmed that Dominion's proposed equity investment is consistent with IRS guidance and helps to ensure Dominion will not recognize in its taxable income the cash proceeds received from the bond issuance. Ex. 21 (Atkins securitization direct) at 10.
[106] Ex. 19 (D. Johnson securitization direct) at 7.
[107] *Id.* at 8.
[108] *Id.* at 9, as revised in July 14, 2023 errata.

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	July 2022 - June 2023	Dec 2023 - Mar 2024	Apr 2024 - June 2024	July 2024 - June 2025
Standard Recovery Option	$35.38	$43.30	$43.30	$38.34
Fuel Securitization Option (10 year Option)	$35.38	$28.59	$30.88	$29.87
Net Bill Reduction with Securitization		$14.72	$12.43	$8.47
Fuel Securitization Option (7 year Option)	$35.38	$28.59	$31.64	$30.63
Net Bill Reduction with Securitization		$14.72	$11.67	$7.71

Mr. Johnson indicated that the proposed transaction would have a relatively level annual debt service and associated revenue requirement, although the deferred fuel cost charge would decline downward over the life of the transaction as Dominion's customer base and associated consumption increase.[109]

Mr. Johnson previewed Company witness Reed's testimony, indicating that both securitization options provide benefits to customers on a net present value basis. Company witness Reed's results are positive net present values of $10.16 million and $29.15 million for the seven- and ten-year options, respectively. Mr. Johnson recommended securitization using the ten-year option because Dominion believes it would provide the lowest initial and ongoing rate impact, with greater benefits to customers, on a net present value basis, than the seven-year option.[110]

To issue the deferred fuel cost bonds, Dominion would form a bankruptcy-remote special purpose entity to acquire the deferred fuel cost property, and to issue and sell the bonds. Dominion's 0.5% capital contribution would be deposited into a capital subaccount, which allows the Company to treat the bond issuance as financing for tax purposes and acts as a supplemental credit enhancement mechanism, in addition to the true-up mechanism. The capital contribution would be available to cover any shortfalls in deferred fuel cost charges and to make payments on the bonds, as necessary.[111]

As explained by Mr. Johnson, Dominion would receive the net proceeds of the bond offering after paying the upfront financing costs, with such proceeds used to "satisfy the relevant deferred fuel cost balance."[112] Dominion would also act as the financing servicer, collecting the irrevocable, nonbypassable charge to pay the principal and interest on the bonds as well as ongoing financing costs associated with the transaction. As servicer, Dominion will periodically transfer the charges it collects to a collection account with the trustee, which will then distribute such amounts to bondholders and other parties in accordance with a bond indenture payment waterfall for the payment of principal and interest on the bonds and ongoing financing costs.[113]

According to Mr. Johnson, Dominion anticipates that the bonds would be issued in two or more tranches with varying weighted average lives and final payment dates to attract investors. He expects the targeted ratings on the bonds would be AAA-equivalent from at least two ratings

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[109] *Id.* at 9. The downward trend assumes all other things being equal. *Id.*
[110] *Id.* at 9-10.
[111] *Id.* at 10-11.
[112] *Id.* at 11.
[113] *Id.*

agencies. He indicated this rating is of paramount importance to ensuring the most cost-effective financing. The actual interest rates, terms, tranches and other characteristics of the bonds would be determined at the time of pricing and would depend on prevailing market conditions. While the specific issuance date cannot be known at this time, the bonds would be issued promptly after: (1) the issuance of a final, non-appealable Commission order that is acceptable to Dominion; (2) delivery of any necessary Securities and Exchange Commission approvals; and (3) delivery of preliminary ratings and presale reports from the engaged rating agencies.[114]

Mr. Johnson testified that Dominion's plan is to pursue a negotiated sales process through a group of underwriters with applicable experience. A thorough marketing and price discovery process would be used to determine the most cost-effective issuance structure.[115]

Mr. Johnson explained that the upfront financing costs would be financed from the bond proceeds.[116] He sponsored the following detailed estimate of the $12.41 million of upfront financing costs assumed by the Petition.[117]

ESTIMATED UPFRONT FINANCING COSTS		Notes
Company Financial Advisor Fees and Expenses	$325,000	
Company Legal Fees and Expenses	$3,000,000	
Underwriters' Fees and Expenses	$4,805,840	40 bps
Underwriters' Legal Fees and Expenses	$850,000	
Indenture Trustee's Fees and Counsel's Fees	$50,000	
Rating Agency Fees		
S&P	$650,000	
Moody's	$952,658	7.5 bps
Fitch	$405,000	
Accountant's/Auditor's Fees	$150,000	
SEC Registration Fee	$150,000	
Printing and Filing Costs	$75,000	
SPE Set-up Costs	$78,500	
Commission Advisor Fees	$600,000	
Servicing Set-up Fee	$212,500	
Administration Set-up Fee	$100,000	
Miscellaneous Administrative Costs	$5,000	
Contingency Reserve	$503	
Total Estimated Upfront Financing Costs	**$12,410,000**	

This estimate increased to approximately $12.53 million when the Company finalized the deferred fuel balance.[118]

[114] *Id.* at 12.
[115] *Id.* at 13.
[116] *Id.*
[117] *Id.* at 14, attached Sched. 6.
[118] *See, e.g.,* Ex. 7. This exhibit also shows an upfront financing cost estimate of approximately $9.7 million for a partial securitization option.

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Mr. Johnson also sponsored detailed estimates of annual, ongoing financing costs, which Dominion expects would total approximately $1.3 million if the full deferred fuel balance is securitized.[119] The table below shows the Company's estimate for a ten-year securitization.[120]

Assumed Ongoing Expenses	Annual
Servicing Fee (5bps)	$635,105
ROI	$335,717
Administration Fee	$100,000
Outside Accounting Fees	$100,000
Outside Legal Fees	$50,000
Rating Agency Surveillance	$79,000
Trustee	$12,000
Independent SPE Manager	$10,000
Misc	$2,058
Total Annual	**$1,323,880**

Mr. Johnson indicated that some of these costs would be determined around the time of the issuance, while others will vary over time.[121]

Mr. Johnson confirmed that many of the "financing costs" under Code § 56-249.6:2 – including upfront financing costs, ongoing financing costs, and interest on the bonds – are unknown at this time.[122]

Mr. Johnson explained how Dominion proposes to deal with the fact that the bond structure and pricing would be unknown at the time of a financing order. He proposed that once such terms are known, Dominion would file with the Commission an issuance advice letter and a true-up adjustment letter in the forms attached to the proposed financing order filed with the Petition. Such filing would contain the final pricing terms, updated estimates of financing costs (upfront and ongoing), and certifications from Dominion to demonstrate that the bond issuance satisfies the standards of the financing order. He further proposed that the final terms of the bond and the initial deferred fuel cost charge would be final unless before noon of the third business day after pricing the Commission issues an order finding that the proposed issuance does not comply with the standards of the financing order. Between the time of this post-order filing and the bond issuance, Dominion would, if requested by the Commission, provide the Commission or Staff with timely information regarding the bond issuance.[123]

He also explained how the Company plans to reconcile differences between the actual upfront financing costs and the post-financing order estimates provided in the letters described above. If actual costs are lower than estimated, the difference would be credited to customers in

[119] *See, e.g.*, Ex. 22.
[120] *Id.* (showing small differences between the seven-, ten-, and fifteen-year securitizations). This exhibit also shows an ongoing annual financing cost estimate of approximately $0.9 million for a partial securitization option. *Id.* at 1, 3.
[121] *Id.* at 14.
[122] Tr. at 153-55 (D. Johnson).
[123] Ex. 19 (D. Johnson securitization direct) at 15. *See* Ex. 4 (Petition) at Appendix B (form of issuance advice letter), Appendix C (form of standard true-up adjustment letter).

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a manner to be determined in the financing order. If actual costs are higher than estimated, Dominion proposed to "recover such prudently incurred excess amounts in base rates."[124]

In Mr. Johnson's opinion, the Commission's role is to decide whether securitization is in the public interest and the Code does not limit the Commission's consideration of factors in making this determination.[125] He acknowledged that Dominion's proposed financing order is highly prescriptive, which he attributed to statutory directive and design. He further indicated the Company's proposed financing order is based on relevant precedent transactions and an informed understanding of rating agency requirements to achieve the targeted rating. If the securitization is approved and the bonds are issued, Mr. Johnson expects that Commission Staff would review periodic deferred fuel cost recovery true-up calculations for mathematical and clerical errors as described in Code § 56-249.6:2 A 2 d.[126]

Mr. Reed has experience with utility securitization dating back to 1997, including for the recovery of extraordinary fuel costs, environmental control systems, generation retirements, and stranded costs associated with restructuring, and for utility credit enhancement.[127]

Mr. Reed provided an overview of securitization, which he indicated can advance utility and customer interests. Securitization involves the issuance of highly rated (typically AAA) bonds that are secured by an intangible property right authorized by state legislation and includes the right to collect revenues through a separate, nonbypassable charge. The nonbypassable charge is imposed on existing and future customers of the utility. Utility securitization bonds are typically issued by bankruptcy-remote special purpose entities formed specifically for that purpose. Securitization by utilities is well accepted by rating agencies, utility equity analysts, and many investors, and is generally considered to be credit positive for utilities. Securitization can avoid sudden and near-term significant increases in customers' bills and can replace traditional utility financing methods (a mix of debt and equity) with the use of nearly 100% highly rated, non-recourse debt financing.[128]

According to Mr. Reed, while securitization avoids sudden rate increases or lowers the cost of capital, securitization is not appropriate in all circumstances and should be properly tailored to extraordinary circumstances. Securitization is typically limited to circumstances with unanticipated costs and clear benefits to customers, which also does not undermine future investment by the utility.[129] In his opinion, Dominion's deferred fuel costs represent an unexpected and highly unusual increase in fuel costs, associated with extreme market conditions.

Mr. Reed provided his understanding of the parties and stakeholders to a securitization transaction, and their respective roles.[130]

[124] Ex. 19 (D. Johnson securitization direct) at 16.
[125] *Id.*
[126] *Id.* at 17.
[127] Ex. 20 (Reed securitization direct) at 4.
[128] *Id.* at 6.
[129] *Id.* at 6-7.
[130] *Id.* at 7-8 (discussing the role of the public utility commission, utility, special purpose entity, financial advisors, underwriters, regulatory advisors, bond counsel, bankruptcy counsel, indenture trustee, rating agencies, and bondholders).

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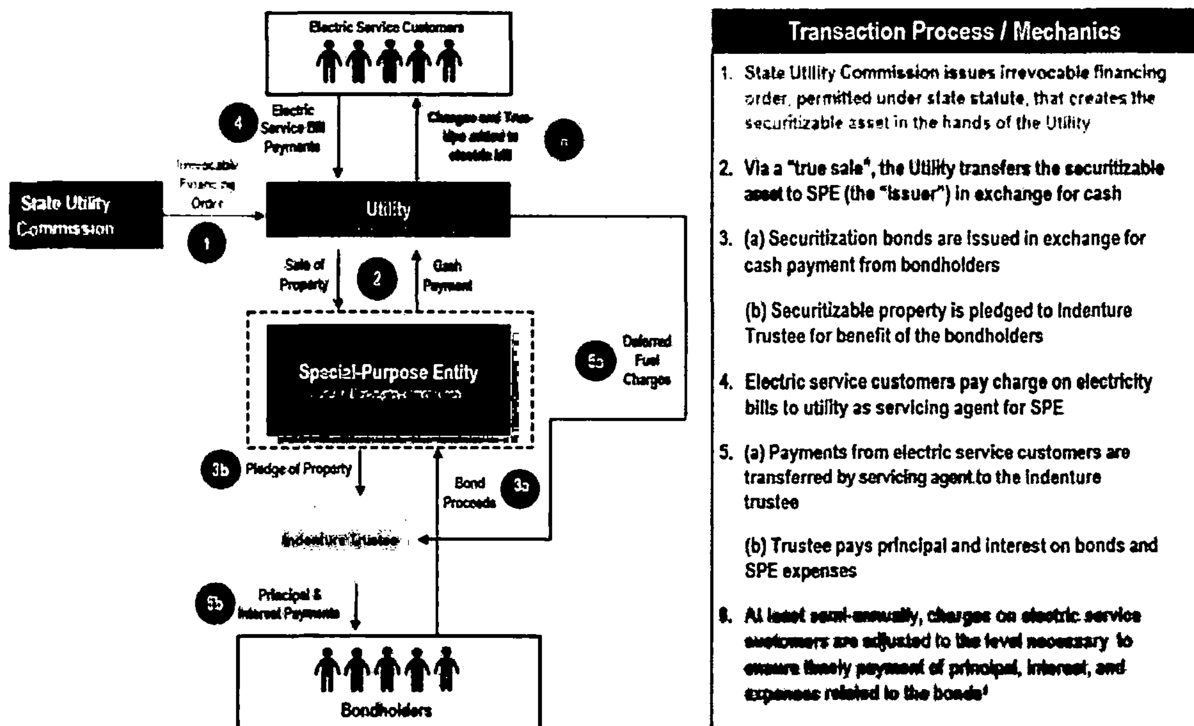
Mr. Reed stressed the importance of the bonds achieving the highest available credit ratings, which results in lower borrowing costs than bonds with lower credit ratings.[131] He identified and discussed the following key features of the securitization framework used to achieve the highest ratings: (1) state financing legislation that, among other things, authorizes the creation of an intangible property right, which includes a right to nonbypassable securitization charges; (2) an irrevocable financing order from the public utility commission or other regulatory body, which, among other things, authorizes the use of a special purpose entity; (3) a true-up mechanism, administered by the commission and utility or the debt servicing agency for the special purpose entity, to adjust the amount and/or timing of the charges to ensure full and timely recovery; and (4) state and public utility commission pledges not to impair the rights of bondholders to the intangible securitization property, including sufficient nonbypassable charges.[132] He provided the following figure to illustrate a typical securitization financing structure.[133]

Figure 1: Securitization Financing Structure



Mr. Reed identified credit rating agency-related requirements that are included in a financing order, such as requirements for a bankruptcy-remote special purpose entity that is legally isolated from the utility; requirements to ensure the ability of the special purpose entity to reliably and promptly adjust the security charge, as needed; and the establishment and preservation of the rights of the special purpose entity in the securitization property. Other important requirements include the billing and collection mechanism, equity and maturity

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[131] *Id.* at 8, 11, 17. The credit rating directly impacts the cost of the securitized bonds and therefore the cost that is incurred by customers. *Id.* at 11.

[132] *Id.* at 8-11.

[133] *Id.* at 10.

cushions in terms of the special purpose entity's financing; clarity regarding the servicing entity's duties, payment of all initial and ongoing special purpose entity costs; and non-impairment and non-securitization of the securitization property rights, including the nonbypassable charge and the true-up adjustment process.[134] Mr. Reed is unaware of any offsets to the benefits of the currently proposed securitization from a rating agency point of view, nor from a Dominion credit profile perspective.[135]

According to Mr. Reed, securitization is a well understood process that attracts a competitive level of investor interest. By his count, approximately 110 utility securitization transactions, representing more than $80 billion, have occurred in the United States since the mid-late1990s.[136] He described types of utility assets and expenses that have been securitized. Securitized expenses have typically involved purchased power and fuel costs that are either extraordinary (due to price spikes or extreme weather) or one-time reformation costs.[137] In his opinion, cost securitization is best when certain costs are viewed as non-recurring and large enough to cause rate spikes. Additionally, utilities use securitization to achieve cost recovery certainty.[138] He identified several pending utility securitizations, but he was unsure whether they were exclusively for fuel costs.[139]

Mr. Reed offered the following perspective:

> Regulators should be careful to authorize securitizations that are designed to ensure that customers benefit from the transaction and that costs (and therefore, customer charges), are managed effectively. Regulators should also consider the equitable allocation of the benefits of securitization. Regulators must balance the competing objectives of near-term customer benefits versus intergenerational equity in terms of cost responsibility over the longer term.[140]

Mr. Reed explained the applicability of securitization to Dominion's deferred fuel costs. He indicated that these costs meet three important criteria making them eligible for securitization under the legislation. First, they fall within the legislative definition of "Deferred fuel costs." Second, the costs are identifiable as they have already been incurred and are quantifiable. Third, prudently incurred costs would otherwise be recoverable. He indicated that, absent securitization, Dominion's deferred fuel costs would be paid by customers over a single year or, for the remaining balances associated with the mitigation plan, the remaining two-year recovery period.[141] He added that such "status quo" recoveries would include allowed carrying costs.[142]

Under the securitization proposal, reflecting a capital structure of 99.5% AAA-rated debt and 0.5% equity, securitized costs would be recovered over a seven- to ten-year period at a cost

[134] *Id.* at 12.
[135] *Id.* at 17.
[136] *Id.* at 13.
[137] *Id.* at 12. Asset securitizations have involved, among other things, stranded generation and storm restoration. *Id.*
[138] *Id.* at 13.
[139] Tr. at 185-86 (Reed).
[140] Ex. 20 (Reed securitization direct) at 13.
[141] *Id.* at 14-15.
[142] *Id.* at 15.

of capital lower than the utility's. Dominion would sell the deferred fuel cost property to the special purpose entity, with Dominion making the 0.5% equity contribution and the deferral removed from Dominion's rate base. Once the bonds have been issued, the nonbypassable charges would be included as a separate line item on non-exempt customers' bills.[143] Dominion would enter into a servicing agreement with the special purpose entity and bond trustee, pursuant to which Dominion would be the initial servicing agent for the nonbypassable charges, on an arms-length basis.[144]

With respect to the legislation's directive for a securitization petition to include a description of expected benefits, including the avoidance or significant mitigation of abrupt and significant rate increases, Mr. Reed pointed out that securitization would result in a substantial reduction in the first- and second-year revenue requirements for the collection of deferred fuel costs. Under traditional fuel recovery, he indicated that customers would be required to pay $873.7 million of such costs in the first year, while under securitization they would pay either $220.6 million (seven-year issuance) or $165.75 million (ten-year).[145]

Mr. Reed also developed revenue requirement estimates under both the securitization proposal and the Company's "status quo," then calculated a net present value of both scenarios.[146] The inputs to the securitization scenario are the estimated principal and interest payments in each year, inclusive of upfront financing costs, plus ongoing financing costs estimated for each year.[147] The inputs to the "status quo" revenue requirements were the deferred fuel costs that would be recovered over one or two years and carrying costs on the deferred fuel costs, with the mitigation plan carrying costs being equal to 50% of the Company's weighted average cost of capital and carrying costs for the 2022-2023 fuel year deferral being equal to the full weighted average cost of capital.[148]

Mr. Reed confirmed that his net present value results incorporate both the upfront and ongoing securitization transaction costs. His analysis indicates that these costs partially offset, but do not eliminate, the benefit from the lower financing costs of AAA-rated bonds.[149]

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[143] *Id.* at 15-16.
[144] *Id.* at 16. This means Dominion would be responsible for administering the charges on customer bills, collecting and segregating the payments, and remitting collections to the trustee pursuant to the bond indenture. Dominion will also be responsible for making necessary true-up adjustments and related filings with the Commission. *Id.*
[145] *Id.* at 18.
[146] *Id.* at 18-19 and attached Ex. JJR-1. Since the securitization proposal and status quo unfold over different time periods, calculating their net present value allows them to be readily compared to each other and accounts for the time value of money. *Id.* at 19.
[147] *Id.* at 19. The securitization revenue requirement inputs for the seven- and ten-year securitization alternatives are provided by Company witness Atkins and incorporate the transaction cost assumptions presented by Company witness (Darius) Johnson. *Id.*
[148] *Id.* at 20. Under either scenario, Mr. Reed assumed carrying costs would accrue through March 1, 2024, the transaction's expected closing date. In the "status quo," Dominion anticipates beginning to amortize deferred fuel costs in December 2023, when carrying costs would continue to accrue on a declining deferral balance until the end of the amortization period. The differences in carrying costs between the scenarios are reflected as a net cost in the "status quo" portion of his analysis. *Id.* at 20, n.4.
[149] *Id.* at 21.

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Mr. Reed believes his analytical results are conservative due to his treatment of debt issuance costs, cash working capital impacts and uncollectible costs. He incorporated these costs into the securitization revenue requirement, but not the "status quo" revenue requirement because these costs are reflected in Dominion's base (not fuel) rates.[150] He also believes his results are conservative because his discount rate reflects Dominion's cost of debt, which understates an appropriate discount rate in the current interest rate environment.[151]

Based on Company witness Stuller's bill impact calculations, Mr. Reed indicated that the proposed securitization is expected to represent lower costs and more stable bills that avoid bill spikes that would occur under the status quo.[152]

Mr. Reed offered his opinion on the role of the Commission in the securitization process. He believes the Commission has two major decisions in this case: (1) should the proposed financing order be approved or rejected; and (2) what issuance parameters, including the bond term, does the Commission prefer and should those preferences be established as conditions for moving forward with the securitization? He also offered several questions he believes the Commission should consider when making these major decisions.[153] To Mr. Reed, there is no question that the subject costs are eligible under the statute for securitization.[154]

According to Mr. Reed, securitization does not raise any customer rate class issues regarding cross-subsidization because both securitization and the "status quo" use a per kWh charge to assess cost responsibility. However, he acknowledged securitization raises the issue of intergenerational equity because shifting payments over several years does not fully match the principle that cost responsibility should reflect the period of cost causation. In his opinion, intergenerational equity does not warrant denying securitization because of the demonstrable benefits securitization provides to customers. He added that the use of generally level annual debt service, and the choice between seven and ten years for final bond payment, alleviates concerns about unduly extended cost recovery.[155]

Mr. Reed testified that the Company's proposed approach presents very little risk that securitization could produce an unfavorable outcome for customers. In support of this assertion, he represented that if market conditions become unfavorable, or if transaction costs are far higher than expected, Dominion is not obligated to go forward with the transaction. Additionally, if the bonds cannot achieve a AAA rating, Dominion can either not go forward as planned or modify

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[150] *Id.*

[151] *Id.* This assumption reduces the calculated net present value benefits of securitization. *Id.*

[152] *Id.* at 22.

[153] *Id.* Mr. Reed believes the Commission should consider:

a) whether the use of securitization for the Company's approximately $1.28 billion of deferred fuel costs represents an appropriate application for securitization, b) whether securitization is likely to produce customer benefits in terms of rate stability and affordability, c) does securitization unduly burden future customers who were not present during the recent periods of extraordinary fuel costs, d) are market risks and transaction cost risks for the use of securitization adequately mitigated under the Company's proposed approach, e) is there any risk that this proposed securitization could harm the utility's credit profile or ability to attract capital, and f) if securitization is appropriate after considering these issues, what scheduled final payment date for the transaction does the Commission prefer. *Id.* at 22-23.

[154] *Id.* at 23.

[155] *Id.* at 24.

the structure to achieve the AAA rating.[156] He also sees no significant risk of harm to Dominion's credit profile as the Company could either address rating concerns or choose not to go forward with securitization. He believes the proposed process has adequate safeguards, with the interests of Dominion and its customers clearly aligned.[157]

As for the securitization term, Mr. Reed recommended ten years instead of seven, unless the Commission has a clear preference for a shorter term. He cited the results of his net present value analysis in support of the ten-year term. However, he also indicated that market conditions closer to bond issuance may impact the optimal term. Alternative terms would remain available to Dominion if the Commission adopts Dominion's draft issuance advice letter process.[158]

Mr. Atkins has been heavily involved in utility securitization for most of his investment banking career, including playing a lead banking role in the first utility stranded cost securitization in 1997. Among more recent experience, he developed the credit structure and ratings framework for securitizations to recover costs associated with 2021 Winter Storm Uri.[159]

Mr. Atkins described the proposed securitization process and transaction, including the establishment of a property right, the establishment of nonbypassable charges subject to true-up adjustments, the creation of a bankruptcy-remote special purpose entity, and the Company's role as the servicer of the bonds.[160]

Mr. Atkins identified two primary differences between deferred fuel cost bonds and traditional corporate bonds. First, deferred fuel cost bonds are amortized with principal and interest payments over the life of the bonds, whereas traditional corporate bonds generally have only a single principal payment at the bond maturity date. He indicated that amortization results in a shorter average life for financing and lower interest costs paid by customers. Second, the deferred fuel cost bonds will have a "maturity cushion" in the event of unforeseen circumstances, such as significant declines from customers revenues.[161]

Mr. Atkins discussed the upfront and ongoing financing costs identified and estimated by Company witness Darius Johnson. Mr. Atkins indicated that the ongoing financing costs are generally special purpose entity expenses that are required to keep the securitization working as designed, without reliance on Dominion or any other source of funds. He indicated this is essential to maintaining the bankruptcy-remote status of the special purpose entity.[162] He found Mr. Johnson's cost estimates to be within the ranges of recent utility securitizations.[163]

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[156] *Id.*
[157] *Id.* at 25.
[158] *Id.* at 25-26.
[159] Ex. 21 (Atkins securitization direct) at 2-3. He testified that over $20 billion of utility securitizations were conducted last year. Tr. at 199 (Atkins).
[160] Ex. 21 (Atkins securitization direct) at 6-8.
[161] *Id.* at 8. The "maturity cushion" is a time gap between the scheduled final payment date and the rated legal maturity date. *Id.*
[162] *Id.* at 9.
[163] *Id.*

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Mr. Atkins provided two tables to show transactions with seven- and ten-year structures, each alternative with two tranches of bonds that would amortize sequentially. He noted the terms reflect preliminary estimates whereas investor demand at the time of pricing will determine market-clearing interest rates and the final structure offered to investors.[164] His two tables are shown below.[165]

Table 1: Preliminary 7.25-Year Structure[2]

Target Ratings Aaa(sf) / AAA(sf)	Class A-1	Class A-2				Total
Issue Amount ($mm)	$635.105	$635.105				$1,270.210
Class split (%)	50%	50%				100%
Weighted Average Life (years)	2.5	6.0				4.2
Scheduled Final Payment Date (years)	4.25	7.25				7.25
Coupon	4.967%	4.893%				4.915%
Benchmark (I-Curve)	4.317%	3.893%				4.020%
Spread to Benchmark	0.65%	1.00%				0.90%
Offer yield	4.967%	4.893%				4.915%
Annual principal, interest and other expenses ($mm)—Revenue Requirement						$220.6
Annual ongoing financing costs, including servicing fees as a percentage of annual revenue requirements (%)						.60%

[164] *Id.* at 10-11. The two "tranches" are individual bond tranches with different scheduled final payment dates and average lives. *Id.* at 16.

[165] *Id.* at 12-13. Mr. Atkins included the following explanatory footnotes:

1. Assumes servicing and other ongoing financing costs of approximately 60 to 80 basis points of the annual revenue requirement, across the two scenarios. Structure is preliminary and subject to change based on market conditions and rating agency requirements near or at the time of pricing. Offer yield in these tables assume no original issue discount. Some original issue discount may occur at the time of pricing.

2. Structure is based in part upon information supplied by the Company, which is believed to be reliable but has not been verified. Potential applications of any franchise fees and gross receipts taxes are not reflected in the ongoing cost amounts. No representation or warranty is being made relating to this structure. Estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not considered may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes to simplify the presentation and/or calculation of any projections or estimates. No assurance can be given that any such assumptions will reflect actual future events.

3. Assumes "Aaa (sf)"/"AAA (sf)" – ratings.

4. Benchmark rates as of June 12, 2023.

5. Weighted average benchmark rate, spread, and coupon weighted based on tranche balances and Weighted Average Lives.

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Table 2: Preliminary 10.25-Year Structure

Target Ratings Aaa(sf) / AAA (sf)	Class A-1	Class A-2				Total
Issue Amount ($mm)	$635.105	$635.105				$1,270.210
Class split (%)	50%	50%%				100%
Weighted Average Life (years)	3.5	8.4				6.0
Scheduled Final Payment Date (years)	6.25	10.25				10.25
Coupon	4.959%	4.922%				4.933%
Benchmark (I-Curve)	4.159%	3.822%				3.922%
Spread to Benchmark	0.80%	1.10%				1.01%
Offer yield	4.959%	4.922%				4.933%
Annual principal, interest and other expenses ($mm)—Revenue Requirement						$165.8
Annual ongoing financing costs, including servicing fees as a percentage of the annual revenue requirement (%)						0.8%

As explained by Mr. Atkins, the "target ratings" reflect the highest attainable credit ratings in the credit markets. The "class split" describes the percentage of the deferred fuel cost bond balance that each bond tranche represents. The "coupon" refers to the stated interest rate on the bonds. The "benchmark (i-curve)" is the starting point for how each bond tranche is priced, while the "spread to benchmark" is the difference, or spread, between the benchmark and the bond's interest rate.[166] Issuers would like this credit spread – which will ultimately be determined by the market – to be small, while investors would like it to be wider, all else being equal.[167] The "offer yield," which is the yield on the bonds to investors, equals the benchmark rate plus the credit spread, considering any original issuance discount determined at the time of pricing.[168] The two term structures shown are designed, considering market interest rates as of June 12, 2023, to provide an efficient distribution of securities across the maturity spectrum and thus the lowest weighted average cost of funds to the issuer given the targeted approximate 7.25-year or 10.25-year scheduled final payment date.[169]

Mr. Atkins discussed the process used to market and price the bonds. After a pre-marking process consistent with Securities and Exchange Commission guidelines, the transaction is announced to investors. The underwriters take indications, then orders, from investors as the underwriting "book" is developed. The book reflects investor interest in each tranche and at

[166] *Id.* at 14. Investors in the asset-backed securities market, and investors evaluating amortizing securities, generally use the interpolated i-curve rates as benchmarks. *Id.* at 14-15.
[167] *Id.* at 15.
[168] *Id.*
[169] *Id.* at 16. The record also includes references to these 10.25- and 7.25-year structures as 10- and 7-year structures. This Report uses these two sets of terms interchangeably.

what credit spreads. Underwriter discussions with investors continue until each tranche is fully subscribed. If the book is oversubscribed, credit spreads may be reduced, but only to a level at which the book still holds together. If a tranche is undersubscribed, credit spreads may be adjusted somewhat higher to bring orders to a level where the book is fully subscribed. Launching and pricing of the transaction follows, with closing typically occurring five business days after pricing.[170] Because of the expected size of the transaction, two tranches can be structured to take advantage of discrete pockets of investor demand across the entire term of the transaction and to maintain tranche sizes large enough to ensure secondary market liquidity for the bonds.[171]

Mr. Atkins discussed the proposed financing order, which he co-sponsored with Company witness Darius Johnson.[172] He identified as key elements of the financing order several matters also addressed by Company witnesses Johnson and Reed. These include:

- the creation and use of a bankruptcy-remote special purpose entity;[173]
- customer benefits standard provisions;[174]
- approval of an automatic and prompt administrative true-up process;[175]
- a Commission (and Commonwealth) pledge not to impair the rights of bondholders arising from the financing order and securitization process;[176]
- a nonbypassable charge applicable to all electric usage by existing and future nonexempt retail customers in Dominion's service territory;[177] and
- a "maturity cushion" providing flexibility between the scheduled final payment date and the legal final maturity of the last bond tranche.[178]

Mr. Atkins indicated that: "[r]egulatory and political risks are often considered to be the most significant credit risks associated with this asset class, and it is important that perceptions of such risks be minimized."[179]

Mr. Atkins recommended mandatory true-up calculations on at least a semiannual basis, throughout the life of the bonds, with the objective of achieving the highest credit ratings per rating agency requirements and meeting investor expectations. During the last year prior to the scheduled final payment date, the true-up calculation would be conducted at least quarterly. He further recommended that Dominion, as the servicer, be authorized to correct potential

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[170] *Id.* at 15-16.
[171] *Id.* at 16. Perceived secondary market liquidity is generally a consideration for investors during the bond marketing and pricing process. *Id.*
[172] *Id.* at 16-25.
[173] *Id.* at 16-17.
[174] *Id.* at 24.
[175] *Id.* at 18-20.
[176] *Id.* at 19, 22-23. He indicated that the Code renders the financing order, once entered, irrevocable and affirms the pledge for the Commonwealth and its agencies (including the Commission) not to take or permit any action that impairs or would impair the value of the deferred fuel cost property authorized by the financing order. *Id.* at 22.
[177] *Id.* at 20. This would apply to electric delivery service from the Company or a successor. *Id.* at 22.
[178] *Id.* at 24-25. He recommended that the financing order not specify a legal maturity, given that the rating agency process occurs after the irrevocable financing order is issued. *Id.* at 25.
[179] *Id.* at 19.

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overcollections or undercollections at any time. He testified that "[t]rue-up adjustments must also be uncapped to ... support the highest ratings for the [b]onds and the lowest charges" to customers.[180] He recommended that true-up adjustments should be implemented automatically and administratively by the Company on a prompt basis, subject only to mathematical and clerical error review by the Commission. He added that true-up adjustments should be both backward- and forward-looking.[181]

According to Mr. Atkins, the findings and ordering paragraphs of Dominion's proposed financing order reflect the level of detail and scope expected by investors and rating agencies. He indicated that the provisions of the proposed financing order have been drafted with a view toward providing the legal basis for counsel to issue opinions on which the rating agencies will rely in assigning the highest possible bond ratings.[182]

Mr. Atkins discussed the rating agency process for evaluating and rating the bonds. Important rating elements include: legal and regulatory framework, political and regulatory environment, long-term consumption trends for electricity, transaction structure, servicing review and capabilities, service area analysis, cash flow stress and analyses, and size of the deferred fuel cost charges on an aggregate basis as a percentage of the total average non-exempt residential energy bill.[183] The ratings process also entails a review of cash flows of the proposed structures and various stress tests.[184] Other factors for obtaining the highest credit rating include: the bankruptcy-remote nature of the special purpose entity, the terms of the servicing agreement, the 0.5% capital subaccount funded by Dominion, that the proposed transaction has relatively level annual debt service and associated revenue requirement, the true-up process, and a maturity cushion.[185]

Mr. Atkins concluded with his belief that the proposed financing order:

> will enable the Company to structure a transaction that can achieve the highest possible ratings and is consistent with investor preferences that will enable the Company to price bonds at the lowest market-clearing interest costs consistent with investor demand and market conditions at the time of pricing.[186]

While Mr. Atkins acknowledged net present value is important, he stressed the importance of bill impacts in this case, viewing it as "a kitchen table issue."[187] When asked about the potential for higher interest rates, he emphasized that "interest rates are only a tiny portion of what customers pay."[188]

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[180] *Id.* at 20.
[181] *Id.* at 20-21.
[182] *Id.* at 23.
[183] *Id.* at 26.
[184] *Id.* at 26-27.
[185] *Id.* at 27.
[186] *Id.* at 28.
[187] Tr. at 197 (Atkins).
[188] Tr. at 198 (Atkins).

Ms. Lecky calculated the Petition's estimated total revenue requirements of $1.544 billion and $1.658 billion for the seven- and ten-year deferred fuel cost bond options, respectively.[189] The deferred fuel cost charge revenue requirement consists of the projected monthly amounts necessary to pay principal and interest on the bonds, as well as other ongoing financing amounts.[190] She also presented the estimated revenue requirement by year for these two options – including year one estimates of $220.626 million and $165.751 million for the seven- and ten-year options, respectively.[191]

Ms. Lecky sponsored the Company's cost of capital calculation. She indicated that this calculation includes, among other things, the rate of return on common equity and common equity capitalization ratio that is directed by the Code.[192]

Citing provisions of Code § 56-249.6:2 A 2 b (5), Ms. Lecky proposed the mechanism and corresponding form to be used for making periodic, formula-based true-ups to the deferred fuel cost charge.[193] To ensure collections are sufficient for timely payment of the bonds and all ongoing financing costs, Dominion proposed making semiannual true-up filings so that each true-up adjustment for the nonbypassable charge will be effective at least three months prior to the next bond payment date. Dominion's proposed approval period for such true-up adjustment would be within 30 days of the filing. Additionally, Dominion requests authority to make optional, interim true-up adjustments at any time to ensure sufficient recoveries.[194]

Ms. Lecky testified that Dominion would reconcile deferred fuel cost charge collections with remittances at least annually. Dominion would also update the data underlying the retail revenue lag and uncollectible rate.[195]

Once all deferred cost bonds and ongoing financing costs of a particular series have been paid in full, Ms. Lecky confirmed that the relevant nonbypassable charge would no longer be billed to, or collected from, customers. Any remaining amounts held by the special purpose entity would be remitted to Dominion, as applicable, for customer credits.[196]

According to Ms. Lecky, Dominion, as servicer, would be required to remit deferred fuel cost charges directly to the appropriate bond trustee. Since Dominion does not track customer charges on a daily basis, the Company will remit deferred fuel cost charges based on estimated daily collections using the retail revenue lag on the Company's bills.[197] Ms. Lecky sponsored the retail revenue lag and uncollectible rate used by Dominion witness Stuller in his calculation of the nonbypassable charge.[198] She indicated that the retail revenue lag of approximately 45

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[189] Ex. 23 (Lecky securitization direct) at 2 and attached Scheds. 1A, 1B, 2.
[190] *Id.* at 3. She included Company witness Darius Johnson's estimates of upfront and ongoing financing costs in her revenue requirement calculations. *Id.* at 3-4.
[191] *Id.* at 8, attached Sched. 2.
[192] *Id.* at 2, attached Appendix C.
[193] *Id.* at 4-6, attached Appendix B; Ex. 4 (Petition) at Appendix C (form of standard true-up adjustment letter).
[194] Ex. 23 (Lecky securitization direct) at 6.
[195] *Id.* at 7.
[196] *Id.* The equity contribution held in the special purpose entity, and any return thereon, would not be credited to customers. *Id.*
[197] *Id.* at 8.
[198] *Id.* at 2-3.

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days is supported by Dominion's lead lag study based on 2022 data, and is pending in Case No. PUR-2023-00094.[199]

Mr. Stuller sponsored the proposed form tariff sheets for the securitization options presented in the Petition, including for initial nonbypassable charges.[200] While the final nonbypassable charge will not be calculated until after the final terms of the bond issuance are established, Dominion requested approval of the form tariff sheets for the nonbypassable charge.[201] Once the final charge is calculated, Dominion proposed to submit revised sheets for administrative approval within three business days after submission. The rate could also be revised as part of Dominion's proposed true-up process.[202]

Mr. Stuller also sponsored a proposed tariff sheet applicable to customers not subject to the deferred fuel cost securitization.[203] In contrast to the nonbypassable charges, Dominion expected it would update the values in this tariff sheet during the course of this proceeding, for Commission approval in this case.[204]

Mr. Stuller explained that Dominion proposed billing the nonbypassable charge on a per kWh basis, consistent with the fuel factor, effective for usage on and after the first day of the month that is at least 15 days after the issuance of the deferred fuel cost bonds. When the Petition was filed, Dominion expected issuance would occur early March 2024 if the Petition is approved.[205] For the initial billing period, Mr. Stuller calculated nonbypassable rates of 3.049¢/kWh and 2.290¢/kWh for the seven- and ten-year options, respectively.[206]

To calculate these initial rates, he divided the initial revenue requirement by the applicable billing determinants over the initial rate period.[207] Mr. Stuller explained that the billing determinants used in this case had to be calculated differently than those in other ratemaking proceedings. In this case, he calculated an "effective kWh," which includes an adjustment to recognize the 45-day lag Dominion estimates it takes, on average, to receive cash from customers through the normal billing process.[208] The Company's effective kWh calculation also applies an uncollectable rate factor and removes kWh sales attributable to non-securitization customers based on prior calendar-year sales to such customers.[209]

After the initial period, Mr. Stuller testified that the nonbypassable rate would be calculated using the deferred fuel cost change true-up mechanism form attached as Appendix B

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[199] *Id.*
[200] Ex. 25 (Stuller securitization direct) at Attached Scheds. 3-4.
[201] *Id.* at 7.
[202] *Id.* Dominion contemplates that this submission and review would be part of the issuance advice letter process described by Company witnesses Atkins and Darius Johnson. *Id.*
[203] *Id.* at attached Sched. 5.
[204] *Id.* at 8-9.
[205] *Id.* at 1-2. All of the dates in his testimony are based on the assumption that a financing order would be entered, followed by an early March 2024 bond issuance, with rates going into effect April 1, 2024. *Id.* at 3.
[206] *Id.* at 3 and attached Sched. 2.
[207] *Id.* at 4 and attached Sched. 2. *See also id.* at attached Sched. 1 (calculating the initial rate period effective kWh billing determinant).
[208] *Id.* at 4-5, attached Sched. 1 (calculating the initial rate period effective kWh).
[209] *Id.* at 5.

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to Company witness Lecky's direct testimony.[210]

Mr. Stuller confirmed that, for billing purposes, the nonbypassable charge would appear as a separate line item.[211] He presented the following two tables to show the estimated nonbypassable rates and bill impacts under the two options presented in the Petition.[212]

Table 1

7.25 Year Deferred Fuel Cost Charge Outlook						
Year	Revenue Reqt for Charge Period	Sales for Period Adjusted Retail Lag (kWh)	Non-Securitization Customer Usage to Exclude (kWh)	Charge Period Effective kWh	Deferred Fuel Cost Charge ($/kWh)	1,000 kWh Bill Impact
April 1, 2024	$220,626,000	88,306,061,491	15,899,102,530	72,367,135,133	$0.003049	$3.05
April 1, 2025	$220,626,000	88,152,644,961	15,899,102,530	72,213,802,982	$0.003055	$3.06
April 1, 2026	$220,626,000	92,794,915,210	15,899,102,530	76,853,519,982	$0.002871	$2.87
April 1, 2027	$220,626,000	96,068,739,022	15,899,102,530	80,125,543,191	$0.002754	$2.75
April 1, 2028	$220,626,000	98,922,627,651	15,899,102,530	82,977,862,182	$0.002659	$2.66
April 1, 2029	$220,626,000	103,149,555,486	15,899,102,530	87,202,465,206	$0.002530	$2.53
April 1, 2030	$220,621,000	107,667,245,072	15,899,102,530	91,717,670,063	$0.002405	$2.41

Table 2

10.25 Year Deferred Fuel Cost Charge Outlook						
Year	Revenue Reqt for Charge Period	Sales for Period Adjusted Retail Lag (kWh)	Non-Securitization Customer Usage to Exclude (kWh)	Charge Period Effective kWh	Deferred Fuel Cost Charge ($/kWh)	1,000 kWh Bill Impact
April 1, 2024	$165,751,000	88,306,061,491	15,899,102,530	72,367,135,133	$0.002290	$2.29
April 1, 2025	$165,751,000	88,152,644,961	15,899,102,530	72,213,802,982	$0.002295	$2.30
April 1, 2026	$165,751,000	92,794,915,210	15,899,102,530	76,853,519,982	$0.002157	$2.16
April 1, 2027	$165,751,000	96,068,739,022	15,899,102,530	80,125,543,191	$0.002069	$2.07
April 1, 2028	$165,751,000	98,922,627,651	15,899,102,530	82,977,862,182	$0.001998	$2.00
April 1, 2029	$165,751,000	103,149,555,486	15,899,102,530	87,202,465,206	$0.001901	$1.90
April 1, 2030	$165,751,000	107,667,245,072	15,899,102,530	91,717,670,063	$0.001807	$1.81
April 1, 2031	$165,751,000	113,579,289,861	15,899,102,530	97,626,463,228	$0.001698	$1.70
April 1, 2032	$165,751,000	119,444,206,589	15,899,102,530	103,488,154,251	$0.001602	$1.60
April 1, 2033	$165,743,000	125,914,504,623	15,899,102,530	109,954,893,621	$0.001507	$1.51

Mr. Stuller also provided the amount and percentage increase that the above bill impacts would represent to Dominion's retail customers.[213] For example, the $3.05 initial impact shown above in his Table 1 above represents a 2.3% increase to the average weighted monthly bill of a residential customer using 1,000 kWh per month. The $2.29 initial impact shown above in his Table 2 represents a 1.7% increase to the average weighted monthly bill of such a customer.[214]

He asserted that should the Commission deny Dominion's securitization proposal, the resulting increase in the bill of a residential customer using 1,000 kWh would be $14.72 per month, effective the first day of the next month which is at least 15 days after such a

[210] *Id.* at 9.
[211] *Id.* at 10.
[212] *Id.*
[213] *Id.* at attached Scheds. 6-7.
[214] *Id.* at 11.

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Commission order.[215] He presented the following table to illustrate the impact of this "standard recovery" (also referred to as the Company's "status quo") option, compared to the estimated impact of the two securitization options presented in the Petition.[216]

Rider A and Deferred Fuel Cost Charge Bill Comparison

$/1000kWH per month

	Jul-22	Dec-23	Jul-24	Jul-25	Jul-26	Jul-27	Jul-28	Jul-29	Jul-30	Jul-31	Jul-32	Jul-33
Standard Recovery Option												
'21 Fuel Deferral (Original Mitigation)		$4.31	$4.37	-	-	-	-	-	-	-	-	-
Underrecovery of yr 2 Mitigation			$1.87									
'22/23 Fuel Deferral		$10.41	$4.52	-	-	-	-	-	-	-	-	-
Total Deferral Charge		$14.72	$10.76	-	-	-	-	-	-	-	-	-
(+) Base Fuel Projection		28.59	27.58	29.25	28.61	27.43	26.79	26.03	26.28	27.30	29.01	30.23
Total - Standard Option	$35.38	$43.30	$38.34	$29.25	$28.61	$27.43	$26.79	$26.03	$26.28	$27.30	$29.01	$30.23
Fuel Securitization Option (10 year Option)												
Securitization Charge			$2.29	$2.30	$2.16	$2.07	$2.00	$1.90	$1.81	$1.70	$1.60	$1.51
(+) Base Fuel Projection		28.59	27.58	29.25	28.61	27.43	26.79	26.03	26.28	27.30	29.01	30.23
Total - Fuel Securitization (10 Year Option)	$35.38	$28.59	$29.87	$31.55	$30.77	$29.49	$28.79	$27.93	$28.09	$29.00	$30.61	$31.74
Net Bill Reduction with Securitization		$14.72	$8.47	($2.30)	($2.16)	($2.07)	($2.00)	($1.90)	($1.81)	($1.70)	($1.60)	($1.51)
Fuel Securitization Option (7 year Option)												
Securitization Charge			$3.05	$3.06	$2.87	$2.75	$2.66	$2.53	$2.41	-	-	-
(+) Base Fuel Projection		28.59	27.58	29.25	28.61	27.43	26.79	26.03	26.28	27.30	29.01	30.23
Total - Fuel Securitization (7 Year Option)	$35.38	$28.59	$30.63	$32.31	$31.48	$30.18	$29.45	$28.56	$28.69	$27.30	$29.01	$30.23
Net Bill Reduction with Securitization		$14.72	$7.71	($3.06)	($2.87)	($2.75)	($2.66)	($2.53)	($2.41)	-	-	-

Mr. Stuller sponsored an exhibit showing through September 1, 2024, the impact of all approved and proposed rate changes on a 1,000 kWh residential monthly bill.[217]

Dominion – Supplemental Direct: Fuel Factor and Fuel Securitization (Combined)

Dominion offered the supplemental direct testimony of **Mr. Gaskill** to provide a $1.268 million final deferred fuel balance that would be subject to securitization, pending Commission approval. He reported that the Virginia jurisdictional fuel deferral balance on June 30, 2023, was $1,283,069,332, which is approximately $8 million higher than the estimate presented in the fuel factor Application.[218] From this amount, he subtracted: (1) $11.8 million associated with customers that elected to opt out of securitization;[219] and (2) $3.2 million associated with the aggregate pro rata share of choice or market-based rate schedule customers that are partially exempt.[220]

Mr. Gaskill also sponsored exhibits providing bill impact estimates updated to

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[215] *Id.* at 12.
[216] *Id.* at 13.
[217] Ex. 26; Tr. at 220-21 (Stuller).
[218] Ex. 6 (Gaskill supplemental direct) at 2. The final balance presented by Mr. Gaskill incorporates actual data for April, May, and June 2023. *Id.*
[219] *Id.* Forty-three of the approximately 200 eligible customer accounts opted out. *Id.*
[220] *Id.* at 3. There were 3,026 customer accounts on choice or a market-based rate schedule for a portion of time when the fuel deferral balance was incurred. *Id.*

incorporate the deferred fuel balance presented in his supplemental testimony and including additional potential cost recovery scenarios.[221] For a partial securitization scenario, he assumed that the opt out customers would not change and simply scaled down those customers pro rata obligations. While he could not identify a better assumption, he found it uncomfortable because the customers who decide to opt out could change if their pro rata shares change along with the securitization rate.[222] He agreed that his bill impact estimates depend on 1,000 kWh usage and therefore the impact to higher usage customers, like industrial customers, would be scaled up.[223]

Mr. Gaskill authenticated a discovery response indicating, among other things, that the Company expected no opt out decisions would be materially affected if the exemption period excluded July 2020 through June 2021, as recommended by Direct Energy witness Lacey.[224] Mr. Gaskill characterized the opt out decisions made by 43 customers as "no-brainers" representing pro rata shares of only $10 million in total.[225]

Consumer Counsel: Fuel Factor and Securitization (Combined)

Consumer Counsel offered the testimony of **Ralph C. Smith**, a senior regulatory consultant with Larkin & Associates, PLLC, Certified Public Accountants.

Mr. Smith explained that Dominion's June 30, 2023 fuel deferral balance includes two balances of approximately $288.8 million each that the Company had accumulated through June 30, 2022. The *2022 Fuel Order* addressed those balances, including applying a reduced carrying cost rate of 3.28% to them. The remaining balance of $697.4 million (or $705.5 million, as updated[226]) represents Dominion's estimated fuel cost deferral that occurred during July 2022 through June 2023. Dominion is applying a carrying cost rate of 6.55% to this balance. Mr. Smith explained that 6.55% is Dominion's after-tax weighted average cost of capital, while 3.28% is half that amount.[227]

Mr. Smith provided the following table to illustrate Dominion's calculation of monthly carrying costs for its fuel deferral balance.[228]

Illustration of Dominion's Carrying Cost Caculation: Month of July 2023	Deferred Fuel Balances at June 30, 2023	After Tax WACC	Carrying Cost Rate Applied by Dominion	Monthly Carrying Costs July 2023
	(A)	(B)	(C)	(D)
2nd Yr '21/22 Mitigation	$ 288,795,551	6.55%	3.28%	$ 778,040
3rd Yr '21/22 Mitigation	$ 288,795,551	6.55%	3.28%	$ 778,040
2022/23 Deferral	$ 697,426,391	6.55%	6.55%	$ 3,757,853
Total Fuel Deferral	$ 1,275,017,493			$ 5,313,933

[221] Ex. 8.
[222] Tr. at 91-93, 104 (Gaskill).
[223] Tr. at 98-100 (Gaskill).
[224] Ex. 11; Tr. at 101-03 (Gaskill).
[225] Tr. at 103 (Gaskill).
[226] Ex. 6 (Gaskill supplemental direct) at 2. The final balance presented by Mr. Gaskill incorporated actual data for April, May, and June 2023. *Id.*
[227] Ex. 28 (Smith) at 6.
[228] *Id.* at 7.

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Mr. Smith provided a table to show Dominion's calculation of fuel deferral carrying costs through June 2025 if securitization is denied.[229] Mr. Smith explained that while Dominion recovers its prudently incurred fuel costs through its fuel factor, carrying costs on a deferred fuel balance are recovered through base rates. However, Mr. Smith testified that in Dominion's pending biennial review of its base rates, Case No. PUR-2023-00101, the Company has proposed no incremental increase in its base rates.[230] Based on Dominion's pending proposal not to increase base rates, it appears to Mr. Smith that Dominion's base rates would not be increased for the recovery from its ratepayers of the approximately $73.2 million of carrying costs that Dominion has calculated for July 2023 through June 2025 under a scenario without securitization.[231]

In contrast, Mr. Smith indicated that if securitization occurs Dominion's ratepayers would be responsible for not only the deferred fuel costs but also for all carrying costs and all additional costs associated with the issuance and maintenance of the securitized bonds.[232] Mr. Smith reported that, based on a $1.275 billion deferral balance (prior to the supplemental update), Dominion estimated a total revenue requirement for securitization of approximately $1.544 billion under the seven-year option and $1.658 billion under the ten-year option.[233]

Mr. Smith identified the benefit of securitization to a utility like Dominion. He indicated that securitization provides for assured and quicker recovery of costs, with the utility receiving a large cash infusion that can subsequently be reinvested. While the responsibility for financing costs and all other securitization costs become captive ratepayers' responsibility, Mr. Smith acknowledged that in the right circumstances securitization can benefit ratepayers by reducing the overall revenue requirement and mitigating rate impacts. However, he also indicated that, if not done properly or without adequate consideration of all impacts, securitization can harm ratepayers through substantially higher revenue requirements, increased financing costs, and shifting costs that otherwise would not be directly recoverable from ratepayers under a particular regulatory framework.[234] To Mr. Smith: "Dominion's securitization proposal appears to contain elements of each of these forms of potential ratepayer harm, and thus deserves very careful regulatory scrutiny."[235]

Mr. Smith cautioned that, before approving securitization, it is important to have a high degree of confidence that securitization will produce substantial ratepayer benefits.[236] Otherwise, "tying a utility's captive ratepayers to a new long-term obligation should not be undertaken."[237]

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[229] *Id.* at 8 (source documentation omitted).
[230] *Id.* at 8-9.
[231] *Id.* at 9.
[232] *Id.*
[233] *Id.* at 10.
[234] *Id.* at 10-11.
[235] *Id.* at 11.
[236] *Id.*
[237] *Id.* at 12.

Mr. Smith presented tables to illustrate the Petition's calculated net present value benefits are approximately 1% (7-year) and 2% (10-year) for securitization. He characterized these benefits as slim and not sufficiently compelling for securitization.[238]

Mr. Smith provided the following tables to illustrate his concern about substantially higher revenue requirements for Dominion's ratepayers under the securitization option.[239]

Additional Revenue Requirement 7-Year Securtization

Revenue Requirement (Millions of Dollars)	Amount	Percent Increase
Securitization 7-Year	$ 1,544.38	
Traditional Fuel Cost Mechanism Recovery	$ 1,288.53	
Additional cost for securitization	$ 255.86	20%

Additional Revenue Requirement 10-Year Securtization

Revenue Requirement (Millions of Dollars)	Amount	Percent Increase
Securitization 10-Year	$ 1,657.51	
Traditional Fuel Cost Mechanism Recovery	$ 1,288.53	
Additional cost for securitization	$ 368.98	29%

Mr. Smith indicated that the difference between Dominion's projected revenue requirement amounts under securitization and the impact on ratepayers from traditional recovery would be even larger than the 20% and 29% amounts shown above assuming that Dominion would not increase its base rates in 2024 or 2025 for amounts of carrying costs.[240]

Mr. Smith also highlighted that the 4.92% and 4.93% financing cost rates that Dominion's Petition assumes under the securitization option are 50% and 51% higher than the 3.28% carrying cost rate that is being applied to Dominion's remaining June 30, 2022 deferred fuel cost balance.[241] He thinks a homeowner with a mortgage or home equity loan at a 3.28% rate probably would not refinance at a 4.92% or 4.93% rate absent a compelling reason.[242] In his opinion, keeping the financing rate for the $288.8 million balances in the second and third year mitigation would appear to be substantially better overall for Dominion's captive ratepayers.[243] He also noted that the assumed 4.92% and 4.93% financing cost rates for securitization are higher than Dominion's embedded cost of long-term debt (4.124%) and short-term debt (4.059%).[244]

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[238] *Id.* at 12-13.
[239] *Id.* at 13-14.
[240] *Id.* at 15.
[241] *Id.* at 16.
[242] *Id.*
[243] *Id.* at 17.
[244] *Id.* at 17-18.

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In Mr. Smith's opinion, there could be significant merit in developing an alternative wherein the financing cost rate applied to the approximately $697 million of deferred costs from the period July 2022 through June 2023 were either at Dominion's cost of debt[245] or at a mitigated cost rate, such as the 50% after-tax weighted average cost of capital that was applied to Dominion's June 30, 2022 deferred fuel balances.[246]

Mr. Smith ultimately recommended that the Commission carefully evaluate Dominion's securitization proposal, exercise extreme caution and due diligence in evaluating cost recovery options, and carefully consider alternatives that could be a substantial improvement to Dominion's securitization proposal.[247]

VEPGA: Fuel Factor and Securitization (Combined)

VEPGA offered the testimony of **John R. Lord**, Vice Chair of VEPGA, and Coordinator III, Energy Management, for Fairfax County Public Schools.[248] While VEPGA is a non-jurisdictional customer (with rates set by contract, rather than the Commission), VEPGA "wanted to ensure that the Commission had input from a customer's perspective, especially because jurisdictional customers are ratepayers that reside within the localities represented by VEPGA members."[249]

Mr. Lord explained how VEPGA's rates have addressed Dominion's fuel under-recovery balances. While VEPGA typically adjusts all its rate riders on July 1 of each year based on rider updates Dominion submits in the preceding January, VEPGA departed from this practice in 2022 and 2023 by implementing a series of interim fuel rider increases with Dominion.[250] Mr. Lord testified further as follows:

> VEPGA's experience illustrates that it is possible to utilize a "pay as you go" approach to the fuel factor even in the face of significant under-recovery balances. And it also illustrates what, in my opinion, is the folly of Dominion proposing a decrease in its fuel factor in the [f]uel [f]actor Application. It simply makes no sense to me that ... Dominion is proposing a 0.679 cents/kWh decrease in the jurisdictional fuel factor rate while [the Application] shows a fuel deferral balance of approximately $2.292 billion.[251]

Mr. Lord indicated that the hardship of a "pay as you go" approach on jurisdictional customers could be moderated by spreading the costs over two or three years, which has been the historical

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[245] Mr. Smith indicated that the Hearing Examiner's Report in the 2022 Fuel Case identified, as one alternative in that case, application of a weighted cost of debt rate to the subject deferral balances, to permit the recovery of interest charges associated with financing but without a profit. *Id.* at 18-19.

[246] *Id.* at 18.

[247] *Id.* at 19.

[248] VEPGA is a joint powers association comprised of 170 local governments and other political subdivisions of the Commonwealth. Collectively, VEPGA members purchase over $500 million of electricity annually. Ex. 29 (Lord) at 1.

[249] *Id.* at 3.

[250] *Id.* at 3-5.

[251] *Id.* at 5 (emphasis omitted).

practice for such customers. This approach seems more reasonable to him than securitization, which he described as "complicated, costly, unfair, and ill-advised ... for dealing with the under-recovery balance."[252] He pointed to Staff's alternative fuel factor recovery option as the type of conventional approach to cost recovery that the Commission should consider in this case.[253] He added that securitization would result in a loss of Commission oversight over the nonbypassable rates.[254]

According to Mr. Lord, securitization is not in the best interest of Dominion's customers[255] and would be "ill-advised because all Dominion customers are in an era of rising costs due to retiring combustion units and adding new generation and new load, which causes transmission costs to rise, as well." He characterized securitization as "simply trading short term gain for long term pain."[256]

Mr. Lord added that moderating fuel prices in 2023 provides an opportunity for Dominion to start catching up on its under-recovery balance via typical mechanisms or simply spreading the costs out over two or three years. He concluded that "[n]ow is not the time for implementing complicated mechanisms that provide more costs than benefits."[257]

Direct Energy: Fuel Factor and Securitization (Combined)

Direct Energy offered the testimony of **Frank Lacey**, Founder and President of Electric Advisors Consulting, LLC.

Mr. Lacey testified that Dominion's Petition is consistent with Code § 56-249.6:2 in many ways.[258] However, he identified two aspects of Dominion's Petition that he believes are problematic for competitive service providers and their customers: (1) the expansion of partially exempt customers to include customers served by Dominion during July 2020 through June 2021; and (2) applying the nonbypassable charge, if approved, to all "future customers."[259]

For partially exempt retail access customers under Code § 56-249.6:2 O, Mr. Lacey asserted that Dominion added one year to the scope of such customers.[260] He pointed to the following language from Dominion's proposed tariff:[261]

> For retail customers who are not subject to the Deferred Fuel Cost Charge pursuant to the Financing Order, the charge for service under [Dominion] filed Rate Schedules and special contracts approved by the [Commission] pursuant to Virginia Code § 56-235.2 shall be increased by the greater of (a) the applicable

[252] *Id.*
[253] Tr. at 240-41 (Lord).
[254] Tr. at 243-44 (Lord).
[255] *Id.*
[256] Ex. 29 (Lord) at 6.
[257] *Id.* at 7.
[258] Ex. 30 (Lacey) at 5.
[259] *Id.* at 4.
[260] *Id.* at 5-10.
[261] *Id.* at 7 (quoting Ex. 25 (Stuller direct securitization) at attached Sched. 5).

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cents per kilowatt-hour charge per month from the table below multiplied by the Customer's kilowatt hours of Electricity Supply Service purchased from [Dominion] for each applicable month for usage on [and] after July 1, 2020 through and including June 30, 2023 or (b) zero.

Mr. Lacey found no explanation in the Petition as to why these charges would date back to July 1, 2020.[262] He believes the time period for deferral is limited to July 2021 through June 2023 and therefore Dominion should only be charging partially exempt customers for deferred fuel costs incurred during those two years.[263]

According to Mr. Lacey, this issue impacts only the partially exempt customers, but not the "exempt retail access customers," under the statute.[264] More specifically, this issue impacts Dominion's ability to seek recovery of fuel costs from a shopping customer that switched away from Dominion at any time from July 2020 through June 2021.[265] Based on a table submitted as part of Dominion's tariff,[266] Mr. Lacey indicated that Dominion should owe a credit to any shopping customer who left Dominion during the first five months of this period (July 2020 through November 2020).[267] However, under Dominion's proposed tariff, he believed such a customer would be compelled to pay a fuel deferral charge.[268] He testified that partially exempt customers who left to shop during July 2020 through November 2020 overpaid and contributed to the deferred fuel balance by making it lower than it otherwise would have been.[269]

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[262] Ex. 30 (Lacey) at 8.
[263] *Id.* at 8-10.
[264] *Id.* at 10-11.
[265] *Id.* at 11.
[266] The referenced table is shown below. Ex. 25 (Stuller direct securitization) at attached Sched. 5.

Month	$/kWh[1]	Month	$/kWh[1]	Month	$/kWh[1]
Jul-20	($0.000868)	Jul-21	$0.002517	Jul-22	$0.011867
Aug-20	($0.001821)	Aug-21	$0.006615	Aug-22	$0.035488
Sep-20	($0.003120)	Sep-21	$0.007637	Sep-22	$0.018266
Oct-20	($0.003496)	Oct-21	$0.012994	Oct-22	($0.000426)
Nov-20	($0.001190)	Nov-21	$0.022465	Nov-22	$0.002881
Dec-20	$0.002319	Dec-21	$0.007397	Dec-22	$0.022549
Jan-21	$0.002139	Jan-22	$0.022136	Jan-23	($0.006791)
Feb-21	$0.007145	Feb-22	$0.010664	Feb-23	($0.007691)
Mar-21	$0.012424	Mar-22	$0.011927	Mar-23	($0.015035)
Apr-21	$0.006148	Apr-22	$0.019748	Apr-23[2]	($0.010958)
May-21	$0.007098	May-22	$0.036760	May-23[2]	($0.007327)
Jun-21	$0.004659	Jun-22	$0.024934	Jun-23[2]	($0.011753)

Notes:

1: Positive numbers represent an under-recovery of fuel cost

2: Apr, May, and Jun 2023 are estimates. Final numbers will be submitted in a supplemental filing

On rebuttal, Mr. Stuller provided finalized figures for the last three months, which remained negative. Ex. 54 (Stuller rebuttal) at attached Sched. 6.
[267] Ex. 30 (Lacey) at 11.
[268] *Id.* at 11-12.
[269] Tr. at 247 (Lacey).

Mr. Lacey asserted that neither Dominion nor its customers would be harmed by a Commission determination that the exemption period should be July 2021 through June 2023. In support of this assertion, he indicated that Dominion would collect all of its fuel costs deferred during that period from customers who received electric supply service when Dominion incurred such fuel costs.[270] However, if the Commission does not adopt his recommendation, Mr. Lacey asked the Commission not to allow Dominion to cap the payments from partially exempt retail access customers in the first five months at zero. He believes that if Dominion over-recovered its fuel costs in that period from a customer who later switched, it is fair to reimburse the customer for the overpayment.[271] He indicated that paying such credits would remove a subsidy from Dominion's proposal.[272]

Turning to the issue of future customers, Mr. Lacey identified the statutory language requiring the securitization charges to be "non-bypassable and paid by all retail customers of the electric utility, irrespective of the generation supplier of such customer, except for an exempt retail access customer," but observed that the law does not mention "future customers."[273] He further offered the following opinion:

> The collection of securitization costs from future customers is adverse to the public interest. Dominion has taken on a significant amount of debt, the benefit of which accrued directly to Dominion's customers who purchased electricity supply from Dominion during the deferral period at costs that were below the cost that Dominion incurred to provide that electricity. Eventually, the customers who received the benefit of underpriced electricity will need to repay Dominion for their debts. It is not equitable, nor is it good public policy, to ask a new electricity customer to pay for electricity consumed by another customer or group of customers in a prior period, perhaps as long as ten years in the past. Put another way, not collecting securitization costs from future customers is consistent with cost causation principles as it appropriately recognizes that there is no causal nexus between the past service and future customers, and properly allocates the prior costs and benefits among customers that received the service. New customers will have received no value or benefit of any type for the funds that Dominion seeks to have them pay.[274]

In Mr. Lacey's view, the only demonstrable benefit Dominion's Petition articulates is that customers would be allowed to finance, over a long period of time, charges for the fuel that they consumed, but for which they have not yet paid. Tacking on a securitization charge will only harm new customers, in his view. Mr. Lacey also does not believe that securitization is dependent on the issue of whether or not new customers are included.[275] He sees similarities between "exempt retail access customer[s]" under the statute and new customers, which he believes supports his recommendation to exclude new customers from the charge.[276]

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[270] Ex. 30 (Lacey) at 12.
[271] *Id.*
[272] Tr. at 248 (Lacey).
[273] Ex. 30 (Lacey) at 12-13.
[274] *Id.* at 14.
[275] *Id.* at 15-16.
[276] *Id.* at 16.

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Mr. Lacey testified that if new customers are excluded from the nonbypassable charge, and customers leave Dominion's system, the charge may not need to increase if the load of existing customers increases.[277] However, he also acknowledged that any balance attributable to customers that leave Dominion's system would have to be paid by existing customers that remain if new customers are excluded.[278]

Mr. Lacey distinguished Dominion's current proposal to securitize fuel costs from utility securitizations in other States involving restructuring and storm restoration.[279]

Appalachian Voices: Fuel Factor and Securitization (Combined)

Appalachian Voices offered the testimony of **Ronald J. Binz**, Principal with Public Policy Consulting. Mr. Binz offered the following findings and recommendations:[280]

- The net benefits of Dominion's securitization proposal are relatively small, especially compared to past securitizations across the country. The reasons for the relatively small savings are: (1) higher costs of long-term debt and the relatively narrow difference with the utility's weighted average cost of capital ... ; (2) the relatively short tenor (duration or term) of the securitization bonds requested by Dominion; and (3) lower corporate income tax rates since 2017.

- In judging the merits of this application, the Commission must consider the sensitivity of these relatively small benefits to changing interest rates, to the interest rate spread over treasury bonds achieved by the underwriters, and tenors. The Commission thus must require Dominion to update its proposal to reflect current interest rates, and to provide, as part of that update, the results of modeling interest rate sensitivities.

- If Dominion's analysis, updated with current interest rates, demonstrates that the purported savings have shrunk further, the Commission should consider one of these options, among possibly others:

    o Require Dominion to prepare an alternative securitization proposal based on bonds with a 15-year tenor;

    o Require Dominion to prepare an amortization proposal, recovering the full $1.257 billion over five years with two variations:

        1. Amortization on the Company's books with the unrecovered balance carried at Dominion's [w]eighted [a]verage [c]ost of [c]apital ...; or

        2. Amortization on the Company's books with the unrecovered balance carried at Dominion's [w]eighted [c]ost of [l]ong-[t]erm [d]ebt.

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[277] Tr. at 268-69 (Lacey).
[278] Tr. at 271-72 (Lacey).
[279] Tr. at 250-52 (Lacey).
[280] Ex. 31 (Binz) at 8-9.

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- A useful additional consideration for the Commission in this and other cases, is an estimate of consumers' individual "discount rate." ...

- While the Commission's role in securitization is proscribed by the new securitization statute, the Commission must be concerned about the performance of Dominion, its chosen underwriters, counsel, and others in the process that follows Commission approval of an accounting order. Activities during this period can significantly affect what consumers pay under securitization.

- Securitization can be a valuable regulatory tool to manage large sudden upward movements in revenue requirements. In addition to the situation presented in this case, securitization can be useful in recovering the prudently incurred costs associated with the early closure of generation plants. In view of the likely future need for these bonds, it is important that the Commission and Dominion succeed with this first application of securitization.

Mr. Binz described Dominion's deferred fuel balance as "enormous ... comparable to the cost of a new power plant."[281] He explained securitization in the context of electric utility finance and how securitization has been used in the past.[282] He believes experience indicates that investors show great interest in securitized utility bonds, which have nearly always been rated AAA (or Aaa) and carried a coupon rate at a relatively narrow spread to U.S. Treasury bonds.[283]

When evaluating whether securitization is a good deal for consumers, Mr. Binz indicated that the value of securitization should be judged by comparing the net present value of payments under the "status quo" against the net present value of payments under different securitization proposals. He described this approach as an "apples to apples" comparison.[284]

He found Dominion's $10.16 million (seven-year) and $29.5 million (ten-year) net present value benefit to customers from securitization to be small compared to many securitization proposals he has reviewed. He provided as an example a 2016 securitized bond issuance for $1.3 billion by Duke Energy Florida to recapture stranded nuclear capital costs. In that case, the Florida Public Service Commission estimated that securitization saved customers approximately $600 million in net present value ($708 million nominal), or 46% of the original amount.[285]

Mr. Binz explained that the interest rate environment today is completely different from 2016. The coupon rate for the Florida bonds was 2.73%, compared to Dominion's assumption of 4.993%. The average yield on ten-year U.S. Treasuries in 2016 was 1.496%, compared to a recent yield of 4.032%.[286] More importantly, he indicated that the spread between Treasury

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[281] *Id.* at 9.
[282] *Id.* at 11-12.
[283] *Id.* at 12.
[284] *Id.* at 13.
[285] *Id.* at 13-14.
[286] *Id.* at 14 (rates from August 1, 2016, and August 1, 2023).

yields and utility weighted average costs of capital have narrowed in recent years, reducing the comparative value of financing with securitized bonds.[287]

Another reason he believes Dominion's estimated securitization savings are so thin is that the Tax Cuts and Jobs Act of 2017 reduced the marginal corporate tax rate from 35% to 21%. He testified that this greatly lowered the value of moving cost recovery from a utility's taxable equity financing to debt used in securitization.[288] He indicated that longer tenors for securitized bonds will generally produce larger differences between securitization and traditional cost recovery.[289]

Mr. Binz indicated that in discovery Dominion declined to conduct and provide analyses that would evaluate the sensitivity of the Company's proposal to changes in interest rates.[290] He described such sensitivity analyses as essential to determining whether Dominion's proposal actually helps customers. He also noted that U.S. Treasury bond rates have moved higher in recent weeks, especially after Fitch's recent downgrade of certain U.S. bonds from AAA to AA+.[291] Dominion also declined his request to model the effect of using bonds with longer tenors than the Company's proposal.[292] Mr. Binz indicated that he ultimately conducted simplified modeling of securitization options. He believes his estimates may not produce tariff-worthy results, but indicated Dominion's also does not due to the dynamic nature of credit markets.[293]

Mr. Binz did not detect any errors in Dominion's analysis. However, he identified three concerns. First, he described Dominion as having "tunnel vision" focused on its own proposal. He recommended that the Commission require the Company to model some alternatives.[294] Second, he indicated Dominion's specific proposal may not produce savings adequate to justify its adoption. He cited the fact that the yield on ten-year U.S. Treasury bonds has increased by 32 basis points since Dominion filed its Petition. Because the anticipated coupon rate on the securitized bonds would be a spread from this Treasury bond benchmark, as the benchmark increases, investors' expectations for the coupon rate and bond service payments also increase. Third, no provision in the proposal allows the special purpose entity to refinance the debt if lower future interest rates make that advisable. He believes the statute anticipates possible refinancing.[295]

Mr. Binz provided a discovery response from the Company indicating that Dominion's proposal would not permit refinancing because such an optional call provision would be inconsistent with achieving the lowest bond interest costs. He indicated that callable notes may be harder to market and might carry a higher coupon. However, given the present level of

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[287] *Id.*
[288] *Id.*
[289] *Id.* at 15. This assumes securitization bond rates are lower than a utility's weighted average cost of capital. *Id.* at 14.
[290] *Id.* at 15.
[291] *Id.* at 15-16.
[292] *Id.* at 16.
[293] *Id.*
[294] *Id.*
[295] *Id.* at 16-17 (quoting Code § 56-249.6:2 A 3).

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relatively high bond costs, Mr. Binz believes Dominion should be required to analyze the effect of including a call provision that would allow refinancing at lower rates.[296]

Mr. Binz also asserted that Dominion has not proposed a post-financing order process that will protect customer interests. In his view, the "meager customer savings Dominion claims for its proposal could easily be eclipsed by the quality of the efforts of Dominion and its underwriters."[297]

To show how bond tenor affects interest costs and revenue requirement, Mr. Binz conducted net present value calculations assuming the securitized bonds would be issued at a spread of 100 basis point over the August 4, 2023 U.S. treasury bond yield.[298] He provided a figure to show the results of these calculations.[299] Mr. Binz identified three takeaways from his calculations: (1) the scenario using seven-year bonds is more costly than the "status quo" case; (2) savings begin with the scenario using ten-year bonds, and grow larger as the bond tenor increases; and (3) the difference, as a percentage of net present value, is small, ranging from 1.47% to 5.34%.[300]

Mr. Binz does not challenge Dominion's use of a discount rate equal to its after-tax weighted average cost of capital. He described this as standard regulatory practice. However, he indicated that another way to look at such comparative cash flows is by using a "personal discount rate," or the "time value of money." Research on this issue suggests to him that consumer time preferences, on average, are very likely much higher than Dominion's after-tax weighted cost of capital. He thinks it would be safe to discount these cash flows using a 10% discount rate if the Commission wants to explore the consumer's view of options.[301]

Mr. Binz asserted that to know the probability that securitization will produce actual customer savings, the Commission must require Dominion to produce updated estimates, along with an interest rate sensitivity analysis. He believes Staff and other participants must also be allowed time to review and provide feedback on such information. He asserted that the Commission should then compare Dominion's proposals with alternatives. He suggests as alternatives: (1) securitization with a 15-year tenor; (2) in lieu of securitization, amortization of the entire deferred fuel balance over five years, carried at Dominion's weighted average cost of capital; and (3) his second alternative, but carried at Dominion's embedded cost of long-term debt, which is currently 4.124%.[302]

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[296] Ex. 31 (Binz) at 18 and Attachment RJB-5.
[297] *Id.* at 18.
[298] *Id.* at 19. Mr. Binz described his analysis as less complex than Dominion's and cited the fact that his analysis does not involve a combination of tranches of bonds as one difference. *Id.* at 22.
[299] *Id.* at 21. These calculations are based on Dominion's estimated $1.257.8 billion deferred fuel balance and estimated financing costs at the time of the Petition. *Id.* As discussed above, Dominion subsequently filed supplemental testimony presenting a $1.283 billion deferred fuel balance, or $1.268 billion after removing opt out and exempt customers. *See, e.g.*, Ex. 6 (Gaskill supplemental direct).
[300] Ex. 31 (Binz) at 22.
[301] *Id.* at 22-23. Among other examples, Mr. Binz indicated that one interpretation of a person putting $500 on a credit card with an annual interest rate of 22% is that the person would rather pay $610 a year from now than paying $500 now. *Id.* at 22-23.
[302] *Id.* at 24-25.

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Turning to the post-financing order process, Mr. Binz stressed that the Commission should understand that Dominion and its underwriters would shape the final result through their efforts in structuring, pricing, and marketing the bonds. He continued as follows:

> It is important that Dominion, the underwriters, their counsel, etc. act in the best interests of consumers and achieve the lowest possible cost to consumers given market conditions.
>
> This could be more complicated than it sounds. Underwriters will be paid 40 basis points ($4.8 million) for their efforts. But the underwriters do not have a fiduciary duty to the consumers who will pay the bond premiums. To be fair, Dominion does not have a direct financial interest in the outcome, either. Bottom line, as currently presented, the Commission must rely on the best efforts of these players.
>
> ...
>
> Arguably, the Commission cannot modify its accounting order after its issuance. Yet the Commission has an interest in the performance of Dominion and the underwriters in the process that follows the accounting order and runs through bond issuance.[303]

Nonetheless, Mr. Binz thinks the Commission could appoint observers who report back to the Commission at the end of the process. He believes the presence of observers may not affect the result, but would remind the negotiating parties of the Commission's desire for the least cost to customers, on a net present value basis, and would equip the Commission and Staff for future securitizations likely to follow.[304]

Staff: Fuel Factor and Securitization (Combined)

Staff presented the results of its investigation of the Application and Petition through the testimonies of **Carol B. Myers**, Deputy Director in the Commission's Division of Utility Accounting and Finance; **Jeremy E. Traska**, Managing Director in the Debt Capital Markets & Advisory Group of Drexel Hamilton, LLC; **Laurence H. Wadler**, President and founder of Precision Analytics, Inc.; **Marc A. Tufaro**, Principal Public Utility Regulation Analyst in the Commission's Division of Public Utility Regulation; and **Rob McBride**, Senior Director, Commercial Strategy Midstream, for Enverus, Inc.

Ms. Myers provided some statutory and historical context for fuel factor recovery in the Commonwealth, including traditional recovery and potential securitization. In doing so, she emphasized statutory language in Code §§ 56-249.6 and 56-249.6:2 concerning the minimization of abrupt rate changes. She pointed out that over the last 15 years the Commission has approved several mitigation plans to spread out cost recovery of large deferred fuel cost balances, thereby

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[303] *Id.* at 25.
[304] *Id.* at 26.

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minimizing abrupt increases to customers.[305]

Ms. Myers used the following table to summarize the composition of the deferred fuel cost balance estimated by the Petition.[306]

2nd Year Recovery - 2021/2022 Mitigation	$288.80
3rd Year Recovery - 2021/2022 Mitigation	$288.80
2022/2023 Deferral Balance	$697.43
Total DFC Balance (As of June 30, 2023)	**$1,275.02**
Less: Opt-Out/Partially Exempt Customers	$17.18
Plus: Up-front Financing Costs	$12.41
Total Deferred Fuel Cost Bonds	**$1,270.24**

Ms. Myers summarized Dominion's proposals, offered an alternative option for recovery of the deferred fuel balance over 31 months, and stated Staff's view that none of Dominion's or Staff's recovery options before the Commission in this proceeding are unreasonable.[307] She provided a table to summarize the pros and cons of cost recovery through the fuel factor or, alternatively, securitization.[308]

Ms. Myers detailed retail rate decreases implemented by the Company effective July 1, 2023. The first decrease was to the fuel factor, through implementation of only the current period factor on an interim basis, as proposed by the Application and directed by the May Procedural Order. The second decrease was that Dominion stopped charging Riders R, S, and W, pursuant to Code § 56-585.1 A 3. For a 1,000 kWh per month residential customer, these decreases produce monthly savings of $6.79 and $6.75, respectively, or a total of $13.54 per month. She recognized that these decreases will offset the monthly bill impacts of any fuel factor recovery option approved by the Commission.[309] She presented the monthly rate impacts from the options presented by the Company and Staff using the following table.[310]

[305] Ex. 38 (Myers) at 9-10. In addition to the three-year mitigation plan approved by the *2022 Fuel Order* for the $866.4 million deferred fuel balance as of June 30, 2022, Ms. Myers identified two-year mitigation plans approved in Case Nos. PUE-2011-00045 and PUE-2014-00033, for deferred fuel balances of $433.5 million and $267.8 million, respectively. *Id.* at 10, n.13.
[306] *Id.* at 4.
[307] *Id.* at 5-6.
[308] *Id.* at 7. Her table is included below in this Report's Analysis.
[309] *Id.* at 8. *See also id.* at Myers Appendix A (Dominion letter notifying the Commission of the riders the Company chose to discontinue effective July 1, 2023, by rolling into base rates).
[310] *Id.* at 9. These bill impacts are on a stand-alone basis and do not take into account other bill increases customers will face over the next ten years or decreases, such as the offsetting July 1, 2023 decreases she identified. *Id.* at 21.

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Summary of Cost Recovery Options
Monthly Customer Bill Impacts
As of December 31, 2023 - 2033
For a residential customer using 1,000 kWh per month

Option	Rate Effective Period	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
"Status Quo" Fuel Factor*	19 months	$ 14.72	$ 10.76									
Staff Alternative Fuel Factor**	31 months	$ 7.38	$ 7.38	$ 7.38								
7.25 Year Securitization***	7.25 years	$ -	$ 3.05	$ 3.06	$ 2.87	$ 2.75	$ 2.66	$ 2.53	$ 2.41			
10.25 Year Securitization***	10.25 years	$ -	$ 2.29	$ 2.30	$ 2.16	$ 2.07	$ 2.00	$ 1.90	$ 1.81	$ 1.70	$ 1.60	$ 1.51

* "Status Quo" Fuel Factor recovery scenario assumes $14.72 effective 12/1/23-6/30/24; $10.76 effective 7/1/24-6/30/25
** Staff Alternative scenario assumes $7.38 effective from 12/1/23-6/30/26
*** Securitization scenarios assume rates effective 4/1/2024 and extending for 7.25 or 10.25 years, respectively

Ms. Myers explained that the "status quo" option would charge a prior period factor of: (1) $14.72 per MWh from December 1, 2023 (the earliest Dominion expects it could begin such charge if securitization is denied), through June 30, 2023; and (2) $10.76 per MWh from July 1, 2024, through June 30, 2025.[311] To account for the gap in prior period recovery from July through November 2023, due to interim rate implementation, Ms. Myers indicated the $10.76 rate effective July 1, 2024, would be designed to recover the remaining costs of the second year of the mitigation approved by the *2022 Fuel Order* (in addition to the third year of mitigation and the remaining deferred fuel cost balance for the period ended June 30, 2023).[312]

Ms. Myers elaborated on the pros for customers of the "status quo" option, which provides for the shortest duration for recovery and consequently presents fewer intergenerational equity concerns. She added that the Commission would maintain continuing oversight of fuel rates in contrast to the effect of the securitization options. She also pointed out that the cost of the "status quo" option is more certain than the securitization options because the latter is dependent on future market conditions at the time of securitization.[313] As for cons, she recognized that the "status quo" option would result in a higher monthly bill impact for customers in the near term. However, she also pointed out that such impact would be largely offset by the July 1, 2023 decreases to the current period fuel factor rate and the termination of Rider R, S, and W charges.[314] From Dominion's perspective, Ms. Myers indicated that a pro of securitization is that the Company would receive one lump sum of cash when the bonds are issued. One pro of fuel factor recovery for the Company would be the recovery of carrying costs at the weighted average cost of capital.[315]

Ms. Myers clarified that she does not consider "status quo" to be the most accurate description of Dominion's "status quo" fuel factor recovery option. She explained that fuel rates are typically implemented effective July 1 of a given year, whereas Dominion's "status quo"

[311] She explained that Dominion proposed, and the May Procedural Order approved, suspension of the Application's proposed prior period factor because the prior period factor was designed to recover a portion of the deferred fuel cost balance that is the subject of the proposed securitization. *Id.* at 11.
[312] *Id.* at 11-12.
[313] *Id.* at 12-13. She emphasized testimony from Company witness Atkins indicating that actual bill impacts from the securitization options could "differ materially" from the estimates provided in this proceeding. *Id.* at 18.
[314] *Id.* at 13.
[315] *Id.* at 13-14.

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assumes that implementation is delayed until December 1, 2023. She testified that this results in a 19-month recovery period under Dominion's "status quo" option, with a majority of the deferred fuel balance recovered during July 2024 – June 2025.[316]

As for Staff's 31-month recovery alternative, Staff designed a level prior period factor rate to be effective from December 1, 2023, through June 30, 2026, and keeping the three-year mitigation approved by the *2022 Fuel Order* on track. She indicated that this option provides for more stable rate recovery from customers through the fuel factor and results in a bill decrease of $6.16 per MWh for customers after netting it against the July 1, 2023 decrease to the current period fuel factor rate and the termination of Rider R, S, and W charges.[317] When considered with the July 1, 2023 decreases, she does not believe Staff's alternative option would result in rate shock.[318] Ms. Myers testified that:

> When weighing the customer bill impacts against any intergenerational equity concerns, Staff's alternative option strikes more of a balance. This is accomplished by smoothing out the rate impact to customers, while still providing for recovery of sunk costs, which have no future customer benefits, over a substantially shorter period of time as compared to either of the ... [s]ecuritization options (*i.e.*, 31 months as opposed to 87 to 123 months).[319]

From the Company's perspective, Ms. Myers indicated that Staff's alternative option provides certainty of cost recovery, but over a more extended period of time than the options presented by Dominion. However, she indicated that Staff's alternative option would compensate the Company for the time value of money by allowing the recovery from customers of carrying costs at the weighted average cost of capital on the deferred fuel cost balance through base rate cost of service.[320]

Ms. Myers does not view Staff's alternative option, which extends cost recovery of $500 million by one year compared to Dominion's "status quo" option, as a burdensome additional financing requirement. She believes Dominion has the tool necessary to meet its financing needs regardless of the outcome of the instant proceeding. On this point, she identified two recent Commission authorities that granted Dominion authority to issue approximately $14 billion in debt and approximately $3 billion in equity.[321]

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[316] Tr. at 320 (Myers); Ex. 42 (showing $579 million of $1.283 billion recovered during July 1, 2023 – June 30, 2024 fuel year under Dominion's "status quo" option).
[317] Ex. 38 (Myers) at 14-15. *See also* Ex. 43 (showing revised projected monthly revenue requirements of the alternative Staff option).
[318] Tr. at 314-15 (Myers); Ex. 40.
[319] Ex. 38 (Myers) at 15.
[320] *Id.* at 15-16. As approved by the *2022 Fuel Order*, Dominion would continue to recover carrying costs for the deferral balance as of June 30, 2022, at half the weighted average cost of capital. Carrying costs would be at the full weighted average cost of capital for additional deferred fuel costs accrued during the prior year ended June 30, 2023. *Id.* at 16, n.17.
[321] Tr. at 324-25 (citing *Application of Virginia Electric and Power Company, For authority to issue $13.625 billion in debt and preferred securities pursuant to Chapter 3 and Chapter 4 of Title 56 of the Code of Virginia of 1950, as amended*, Case No. PUR-2023-00090, Order Granting Authority (July 10, 2023); *Application of Virginia Electric and Power Company and Dominion Energy, Inc., For approval of authority to issue up to $3.25 billion in common*

Turning to the securitization options, Ms. Myers cautioned that bill impacts from securitization are uncertain and may differ materially from estimates in this case. However, it appeared to her that these options would provide lower monthly bill impacts compared to fuel factor recovery, by spreading out the deferred fuel balance recovery over a much longer period. She identified Staff's concern with Dominion's requested flexibility to structure securitization according to market conditions when the bonds are issued, which could result in a recovery period different than 7.25 or 10.25 years. She pointed out the Commission's limited oversight after a financing order is issued.[322] From Dominion's perspective, she recognized that securitization would provide the Company with a lump sum recovery independent of electricity sales levels and earlier than other options, although Dominion would forego earning carrying costs after the bond issuance. She also indicated that Dominion would have the administrative burden of servicing securitized bonds for an extended period of time.[323]

Ms. Myers presented information from Dominion's pending integrated resource plan projecting monthly customer bill increases, excluding deferred fuel cost recovery, of $21.62 (16%) by 2028 and $38.65 (29%) by 2033. She attributed these projected increases to significant investments to comply with mandatory renewable portfolio standards, developing offshore wind generation, and potentially developing gas combustion turbines and small nuclear reactors, among other things.[324] She testified further that:

> There is still a real risk that another extraordinary, material, and unforeseen cost could occur in the future. If customers are responsible for paying such an unforeseen cost in addition to continuing to pay for the ... [s]ecuritization over ten years, this could result in a "pancaking" of cost recovery that puts upward pressure on customer bills beyond the bill impacts shown in the 2023 [integrated resource plan] bill analysis.[325]

Ms. Myers does not believe that either Dominion's "status quo" fuel factor recovery or Staff's alternative option would result in rate shock. However, she observed that Staff's alternative option would mitigate the impact of Dominion's "status quo" option.[326]

Ms. Myers referred to Staff witness Wadler's analysis indicating that the securitization options have net present value benefits of $46.41 million (ten-year) and $27.31 million (seven-year), compared to "status quo" fuel factor recovery. These estimated benefits increase to $50.54 million (ten-year) and $31.44 million (seven-year) compared to Staff's alternative fuel factor recovery.[327] Staff does not find net present value benefits of this magnitude to be a compelling reason for securitization, since they are achieved by spreading over an extended period the recovery of sunk costs that have no future customer benefits. She also emphasized

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stock to parent under Chapters 3 and 4 of Title 56 of the Code of Virginia, Case No. PUR-2023-00114, Order Granting Authority (Aug. 17, 2023)). The equity Dominion issues is paid entirely by its parent. Tr. at 439 (Gaskill).

[322] Ex. 38 (Myers) at 19.

[323] *Id.* at 20.

[324] *Id.* at 22-24 and Myers Appendix B. These projected increases are compared to bills as of December 31, 2023, based on Dominion's integrated resource plan B. *Id.* at 23.

[325] *Id.* at 24.

[326] Tr. at 317 (Myers); Ex. 41.

[327] Ex. 38 (Myers) at 24-25.

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Mr. Wadler's calculation that interest rate increases of only 81 and 63 basis points above the assumptions for the ten- and seven-year securitization scenarios, respectively, would eliminate the net present value benefits compared to "status quo" recovery.[328]

Staff opposed extending any securitization beyond the ten-year period proposed by Dominion, because a longer recovery period amplifies concerns about intergenerational equity.[329] Ms. Myers acknowledged that fuel factor recovery over five years would logically lower rates compared to Staff's 31-month alternative option.[330] Regarding the carrying cost rate if securitization does not occur, she questioned the potential use of a weighted cost of long-term debt since the Company's weighted average cost of capital would be its financing cost in this scenario.[331]

Ms. Myers acknowledged that in a recent Dominion base rate proceeding, Staff recommended the amortization of approximately $700 million of undepreciated plant for retired generation facilities over 25 years, rather than the Company's proposal of 3 years. She indicated that each ratemaking issue is fact-specific, and distinguished that case by the potential impact of the undepreciated plant amortization on a base rate refund or decrease. However, she confirmed that Staff's recommendation on the undepreciated plant amortization equated to a position that the burden on future customers of spreading out that recovery over 25 years was outweighed by the perceived benefits to current and future customers.[332]

Ms. Myers testified that, on advice of counsel, any securitization agreements involving Dominion and an affiliate, namely the bankruptcy-remote special purpose entity, would require either approval or exemption under the Affiliates Act.[333] She indicated that Staff does not oppose such an exemption based in part on the prescriptive nature of Code § 56-249.6:2 and the opportunity to review the relationship between Dominion and its affiliate in the instant case. She also identified challenges that securitization would pose to the preapproval process, and continuing supervisory oversight, of the Affiliates Act.[334] However, to ensure transparency and proper accounting, Staff recommended several reporting requirements that are identified in this Report's Analysis below.[335]

If securitization is approved, Ms. Myers explained that Staff believes it is in the public interest for Staff to monitor each phase of the bond offering and issuance through either periodic updates from the Company, or monitoring each phase in "listen-only" mode. Staff is open to working with the Company to chart a path forward that specifies Staff's involvement after the financing order.[336] She provided a discovery response from Dominion indicating, among other

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[328] *Id.* at 25. Interest rate increases of 88 basis points (ten-year) and 72 basis points (seven-year) would eliminate the net present value benefits of securitization compared to Staff's alternative fuel factor recovery option. *Id.* at 25, n.26.
[329] Tr. at 328-29 (Myers).
[330] Tr. at 335 (Myers).
[331] Tr. at 333 (Myers).
[332] Tr. at 366-74 (Myers).
[333] Ex. 38 (Myers) at 26-27. The Affiliates Act is Code § 56-76 *et seq.*
[334] Ex. 38 (Myers) at 28-29.
[335] *Id.* at 29-30.
[336] *Id.* at 31. This recommendation is based on Staff witness Traska's experience in other jurisdictions. *Id.*

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things, that the Company believes discussions with rating agencies and investors should be held only by Dominion and underwriters, given significant liabilities under federal securities laws.[337]

As for Dominion's proposed accounting change to market-based rate revenues, Ms. Myers indicated that the current and proposed methods are both reasonable options.[338] She provided a figure to illustrate the impact of the proposed change, which is provided in Section II of this Report's Analysis below.[339] Ms. Myers explained that the proposed accounting method would appear to provide additional stability in the fuel factor rate due to the correlation between higher (lower) purchased power expenses and higher (lower) revenue from Rate Schedule MBR and SCR Rate Schedule customers. However, she also pointed out that the proposed fuel factor treatment would mean customers will receive any excess or pay for any shortfall on a dollar-for-dollar basis, whereas treatment of any such excess or shortfall is less straightforward under base rates.[340]

Mr. Traska acts as team lead for Drexel Hamilton on all utility securitizations, having administered 12 underwritings and three commission advisory engagements.[341] This experience includes two 2022 securitizations, totaling approximately $2.4 billion, in which Drexel Hamilton acted as pricing advisor to the Public Utility Commission of Texas.[342] In the instant case, his review focused on:

- The reasonableness of the proposed financing costs, inclusive of estimated fees;
- The structuring of the bond issuance;
- The expected pricing of the bonds; and
- The terms and conditions of the proposed securitization.[343]

In his view, Dominion's proposed securitization appears to comply with the provisions of Code § 56-249.6:2. He testified that the contours of Dominion's process are similar to prior utility securitizations in other jurisdictions and are required to achieve the highest possible ratings from the major credit rating agencies, which allows the bonds to be marketed in a manner that will result in the lowest charges consistent with market conditions at the time of bond issuance.[344]

Mr. Traska identified seven features of a utility securitization structure, all of which are included in Dominion's proposal.[345] In his experience, the structural provisions that are most important to rating agencies are those related to the special purpose entity (and, in particular, bankruptcy remoteness) and those related to the collections and remittance processes.[346]

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[337] *Id.* and Appendix C, p. 109.
[338] *Id.* at 35.
[339] *Id.* at 34.
[340] *Id.* at 35-36.
[341] Ex. 34 (Traska) at 1.
[342] *Id.* at 2-3.
[343] *Id.* at 3-4.
[344] *Id.* at 4.
[345] *Id.* at 5.
[346] *Id.* at 6.

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Mr. Traska discussed the creation of a bankruptcy-remote special purpose entity that would enter into arm's length agreements for servicing and administration.[347] He discussed the Company's role as the servicer for the special purpose entity, and the trustee's role in the custody and management of collections as well as distributions of principal and interest to investors.[348]

Mr. Traska explained that in a utility securitization the purpose of a true-up mechanism is to guarantee collection of the funds necessary to cover debt service and financing costs and to minimize any excess collections. By employing the true-up process, utility securitization can attain AAA ratings.[349] He indicated that rating agencies require at least semi-annual true-ups, and at least quarterly true-ups in the final 12 months prior to maturity, and allowance for interim true-ups at any time. He also confirmed the limited nature of a utility commission's review of such true-ups.[350]

Mr. Traska concluded that if the Commission approves securitization, Dominion's proposed financing order appears to include the key standards that rating agencies focus on when assigning the highest possible rating to an issuer.[351] He discussed rating agencies' analyses of the following four key areas: (1) political, legal, and regulatory characteristics of the issuer's jurisdiction, including assurances that the financing order and state legislation are irrevocable and structural provisions cannot be impaired; (2) the structure of the transaction, including bankruptcy remoteness, appointment of an independent manager for the special purpose entity, and whether the legal structure is supported by a "true sale" of an intangible property right; (3) governance of the key functions of the securitization during the life of the bond issue; and (4) analysis of the sponsoring utility's service area and customer base.[352]

Mr. Traska explained that in addition to reviewing the servicer's billing and collection processes, rating agencies also conduct a comprehensive analysis of the cash flows associated with the proposed securitization structure. This analysis includes cash flow stress scenarios to ensure the bonds are able to meet payment obligations even in highly adverse circumstances.[353]

Based on Drexel Hamilton's examination of Dominion's estimated upfront and ongoing costs of securitization, Mr. Traska indicated that such estimates are generally aligned with prevailing market levels and prior securitizations in other jurisdictions. He recognized that the upfront costs would be paid with the securitization proceeds and the ongoing costs would be paid through nonbypassable charges, all subject to true-up adjustment.[354]

Mr. Traska indicated that Dominion's current bond pricing methodology and assumptions are reasonable and aligned with market levels at the time the Petition was filed.[355] Mr. Traska

[347] *Id.* at 6-9.
[348] *Id.* at 8-10.
[349] *Id.* at 10.
[350] *Id.* at 11.
[351] *Id.*
[352] *Id.* at 12.
[353] *Id.* at 13.
[354] *Id.* at 14.
[355] *Id.* at 15. These assumptions resulted in the 4.915% and 4.933% coupons for the seven-year and ten-year options, respectively. *Id.* at 15-16.

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explained that Dominion's seven-year option, as outlined by the Company, is an evenly sized two-tranche offering with scheduled maturities of 4.25 and 7.25 years, and weighted average lives[356] of 2.5 and 6 years, respectively. Dominion's ten-year option is an evenly sized two-tranche offering with scheduled maturities of 6.25 and 10.25 years and weighted average lives of 3.5 and 8.4 years, respectively.[357]

However, Mr. Traska recognized that market conditions have changed since Dominion filed its Petition, and they will continue to change. He confirmed that actual pricing could differ materially from the assumptions included in the Petition.[358] Referencing Code § 56-249.6:2 A 2 b (3), he expressed his opinion that the proposed securitization and financing order would be capable of achieving reasonable charges with market conditions at the time the bonds are priced.[359]

Mr. Traska testified that Dominion should maintain the ability to modify key bond structuring provisions given the heightened volatility in the macroeconomic and geopolitical environment. He identified the following as areas where flexibility is needed: (1) bond tenor and principal amortization schedules within the maximum 10.25 years proposed by Dominion; (2) the number of tranches of the bond issuance; and (3) the number of ratings from the rating agencies, to include a minimum requirement of two rating agencies. He believes Dominion's proposed financing order provides for such flexibility.[360]

Mr. Traska described Dominion's proposed post-financing order process as "a welcome addition to the process," and consistent with successful securitizations in other jurisdictions.[361] However, he indicated that transparency and Staff's role in the final phases of the transaction are outlying questions. While, with one exception, utilities have had the sole decision-making authority regarding all aspects of the structuring, marketing and pricing of such bonds, there have been varying levels of commission staff involved in meetings throughout the final phases to observe and offer suggestions if appropriate.[362] He indicated that "should the Commission desire to have Staff participate throughout the marketing, pricing and pre-issuance process, the most common practice would be an observational role that would not in any way take away from the process but allow for full transparency and a favorable bond issuance."[363]

Based on Mr. Traska's experience, he indicated that the +/- 200 basis point range in Staff witness Wadler's sensitivity analysis of interest rates is reasonable and consistent with interest rate fluctuations that have occurred in prior securitizations.[364] Citing California wildfires and related litigation, Mr. Traska testified that he is aware of utility securitization that has exceeded

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[356] Mr. Traska explained "weighted average life" in this context. *Id.* at 15, n.5.
[357] *Id.* at 15. Mr. Traska referred to these options as the 7.25-Year Structure and the 10.25-Year Structure. *Id.*
[358] *Id.* at 16.
[359] *Id.* at 17.
[360] *Id.* at 17-18. He indicated the Commission could also consider allowing Dominion to pursue a public or private transaction and allowing Dominion to issue the bonds with a fixed or floating rate coupon. *Id.* at 18.
[361] *Id.* at 18-19.
[362] *Id.* at 19.
[363] *Id.* at 20.
[364] Tr. at 287 (Traska).

25 years and $7 billion.[365]

Mr. Wadler evaluated the securitization cash flows and net present value analysis filed with Dominion's Petition. He was able to independently reproduce and verify Dominion's cash flow and net present value calculations.[366] He affirmed Dominion's conclusion that the proposed securitization would provide a net present value benefit compared to "status quo" fuel factor recovery. However, he believes Dominion's analysis understates this net present value benefit because the Company's analysis compresses the monthly securitization cash flows into seven or ten years, rather than the 7.25 and 10.25 years expected by the Company.[367]

Mr. Wadler rendered the securitization cash flows under 7.25 and 10.25 years, which resulted in higher net present value benefits because cash flows were spread over longer periods.[368] He presented the results of his calculations using the table below, which also includes the Company's results, all of which are presented in millions of dollars.[369]

	Staff		**Company**	
	7.25 Year	10.25 Year	7.25 Year	10.25 Year
NPV Benefit vs. "Status Quo"	$ 27.31	$ 46.41	$ 10.16	$ 29.15
NPV Benefit vs. Staff Alternative*	$ 31.44	$ 50.54	$ 14.29	$ 33.28

As a sensitivity, Mr. Wadler also conducted a breakeven analysis to determine the level of increased borrowing cost that would zero out the net present value benefit of securitization.[370] He presented the following table to summarize the results of his breakeven analysis.[371]

	% Increase in Interest Rates	
	7.25 Year	10.25 Year
Breakeven vs. "Status Quo"	**0.63%**	**0.81%**
Breakeven vs. Staff Alternative	**0.72%**	**0.88%**

As shown above, an increase in interest rates of 63 basis points (seven-year) and 81 basis points (ten-year) results in zero net present value benefits from securitization compared to "status quo"

[365] Tr. at 286 (Traska).
[366] Ex. 35 (Wadler) at 5.
[367] *Id.* at 6-7.
[368] *Id.* at 7, attached Ex. LHW-2.
[369] *Id.* at 7. Mr. Wadler noted that for the Company column, Table 1 compares net present values of the Staff Alternative to the net present values of Company-modeled securitization options based on the "status quo" fuel recovery option. *Id.*
[370] *Id.* at attached Ex. LHW-3, LHW-4.
[371] *Id.* at 8.

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fuel recovery. An increase in interest rates of 72 basis points (seven-year) and 88 basis points (ten-year) results in zero net benefits compared to Staff's alternative fuel factor recovery option.[372]

For additional sensitivity analysis, Mr. Wadler calculated the relative net present value benefit (detriment) of securitization assuming interest rates ranging between 2% lower and 2% higher than assumed in Dominion's net present value analysis. He summarized these results in the following table.[373]

Summary of Staff Sensitivity Analysis
NPV Benefits/Costs at +/- 2.00%
In Millions of Dollars

	Vs. Status Quo		Vs. Staff Alternative	
	7.25 Year	10.25 Year	7.25 Year	10.25 Year
-2.00%	$112.0	$157.0	$116.1	$161.1
-1.00%	$70.1	$102.5	$74.2	$106.6
-0.75%	$59.5	$88.6	$63.6	$92.8
-0.50%	$48.8	$74.7	$53.0	$78.8
-0.25%	$38.1	$60.6	$42.2	$64.7
+0.25%	$16.5	$32.1	$20.6	$36.3
+0.50%	$5.6	$17.7	$9.7	$21.9
+0.75%	($5.4)	$3.3	($1.3)	$7.4
+1.00%	($16.4)	($11.3)	($12.3)	($7.2)
+2.00%	($61.0)	($70.7)	($56.9)	($66.6)

Mr. Tufaro summarized Dominion's fuel factor Application,[374] and discussed the Company's updated June 30, 2023 fuel recovery position identified in Company witness Gaskill's supplemental direct testimony.[375] He recognized the Company's updated deferral balance is in line with the Application's projected balance.[376]

Mr. Tufaro provided Dominion's system net energy supply mix and average fuel costs for 2020, 2021, 2022, and for the twelve months ended March 31, 2023.[377] For each generation fuel type, he provided historical and projected aggregate weighted-average equivalent availability factors and summer net capacity factors.[378] He discussed this data and provided some of the

[372] *Id.*
[373] *Id.* at 9.
[374] Ex. 32 (Tufaro) at 2-5.
[375] *Id.* at 5-6.
[376] *Id.* at 6.
[377] *Id.* at 7 and Attachment MAT-2.
[378] *Id.* at 7 and Attachment MAT-3.

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outages scheduled at the Company's generation facilities.[379]

Mr. Tufaro also presented the Application's projected fuel expense and performance data by generating unit or station, for July 1, 2023, through June 30, 2024.[380] The average net energy supply fuel cost forecasted for this period is 2.79¢/kWh, compared to the 4.25¢/kWh average fuel cost during the twelve months ended March 30, 2023.[381] He testified that Staff found Dominion's operational assumptions reflect a reasonable level of performance for fuel expense projection purposes, and are generally consistent with historical performance.[382]

Mr. McBride agreed with Dominion's reliance on observable market data to project commodity prices.[383] He indicated that, because Enverus follows the same philosophy as Dominion, and in many cases uses the same market survey sources, Enverus's price forecasts agree with Dominion's, except for timing differences.[384]

Mr. McBride indicated that the while the Application does not provide a robust description of its load forecasting methodology, he assumed Dominion uses the same methodology used in its integrated resource plan proceedings. He concluded that, although recent increases in PJM issued forecasts are largely driven by increasing datacenter forecasts, the short-term nature of the fuel factor forecast is likely not significantly affected by the datacenter forecast.[385]

Mr. McBride testified that, overall, Enverus does not strongly object to Dominion's forecasts or the underlying methodologies. He also does not object to Dominion's request for relief from the fuel factor filing requirement associated with the monetization of the unused portion of natural gas pipeline on unconstrained days. He agreed with Dominion that reporting pipeline monetization activities annually in the fuel procurement report is sufficient as long as the full detail of all related transactions is provided through workpapers or testimony.[386]

Dominion – Rebuttal: Fuel Factor and Securitization (Combined)

Dominion offered the rebuttal testimonies of **Messrs. (Darius) Johnson, Gaskill, Reed, Atkins,** and **Stuller,** and **Ms. Lecky**.

Darius Johnson does not believe there is any significant disagreement between Dominion and Staff regarding the key aspects of the securitization structure and process. He

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[379] *Id.* at 8-11.
[380] *Id.* at 7; Ex. 32-C (Tufaro) at Attachment MAT-4.
[381] Ex. 32 (Tufaro) at 11-12 and Attachment MAT-1. The average fuel costs for calendar years 2021 and 2022 were 2.59¢/kWh and 4.48¢/kWh, respectively. *Id.* at 12 and Attachment MAT-1.
[382] *Id.* at 7.
[383] Ex. 33 (McBride) at 2-3.
[384] *Id.* at 3. In general, Enverus's forecasts were prepared as of June 2023. *Id.* at Attachment RM-1, p. 3. Where sources differ, the differences are small and reasonable. *Id.*
[385] *Id.* at 3.
[386] *Id.* at 4.

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reiterated Dominion's commitment to communicate with Staff and its advisor should securitization be authorized.[387]

Mr. Johnson testified as follows:

> [I]n our view, since there's a tool that's been provided by the General Assembly to specifically address the affordability element without sacrificing safety, reliability, increasingly transitioning to a cleaner energy profile, those elements are still in place, but we are able to address the affordability element head on. And so the Company's position is we should lean into that, we should lean into that opportunity. It's specifically available for that purpose.[388]

Mr. Johnson reiterated Dominion's support of securitization for a term up to ten years, but indicated that the Company will respect the Commission's determination on this issue, which the General Assembly left for the Commission to decide.[389] While Dominion does not support bond terms longer than approximately ten years, he indicated that the Company's rebuttal testimony presented such a scenario to give the Commission more information concerning the associated impacts.[390]

Mr. Johnson provided the Company's legal position that the Commission's options are binary: (a) securitization; or (b) a twelve-month recovery period for deferred and projected fuel expense, absent a voluntary mitigation proposal from the Company. He testified that "current circumstances cannot support" a mitigation plan.[391]

If Staff's alternative option is approved, Mr. Johnson believes it would have a credit dilutive effect because there would be an impact that is not in the Company's financial plan. More specifically, this option would cause the Company to carry $500 million in 2026, which is beyond what Dominion believes are the legal options for recovery.[392] However, he testified that no rating agency cited to the three-year deferred fuel cost mitigation Dominion agreed to in the 2022 Fuel Case as a reason to adjust the Company's credit ratings.[393]

Mr. Johnson believes some testimony by case participants has under-weighted, or failed to address, the avoidance or mitigation of an abrupt rate increase, which he described as the principal benefit of securitization.[394]

Mr. Johnson testified that if a call provision was included for the securitized bonds, investors would require: (1) a premium; and (2) a make-whole provision that would significantly or entirely negate any savings from refinancing. To cover the remaining securitized balance,

[387] Ex. 44 (D. Johnson rebuttal) at 3.
[388] Tr. at 394 (D. Johnson).
[389] Ex. 44 (D. Johnson rebuttal) at 4.
[390] *Id.* at 6.
[391] *Id.* at 4-5.
[392] Tr. at 395-96 (D. Johnson).
[393] Tr. at 407 (D. Johnson).
[394] Ex. 44 (D. Johnson rebuttal) at 5.

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Dominion would have to file another petition with the Commission for approval of additional securitized bonds, for which the Company would incur additional financing costs.[395]

For language in Dominion's proposed certification letter, he provided the Company's interpretation of language requiring Dominion to certify that imposition of the nonbypassable rates "provides quantifiable benefits to customers ... compared to the costs that would have been incurred absent the issuance of" securitized bonds. He testified that Dominion views these "quantifiable benefits" as relating to customer bill impacts.[396]

Mr. Gaskill elaborated further on Dominion's legal position regarding conventional recovery of a fuel under-recovery balance.[397] While Dominion has at times (including last year) voluntarily proposed to spread recovery of large, one-time fuel balances over multiple years, he indicated that is not a viable option in this proceeding. He testified that, as a practical matter, any voluntary mitigation proposal would be on top of the voluntary mitigation already agreed to by Dominion last year. He also indicated that Consumer Counsel's suggestion that Dominion forego recovery of carrying costs is inconsistent with the governing fuel factor provisions or Commission precedent.[398]

Mr. Gaskill reiterated the difference in bill impacts under the "status quo" fuel factor recovery and securitization. He maintained that securitization is in the public interest because it would mitigate significant and abrupt fuel rate increases to customers. He opined that Code § 56-249.6:2 was enacted in recognition of the recent commodity price increases and the large under-recovery balance. He referenced the statutory filing requirement for Dominion's securitization Petition to include a description of any benefits expected to result from the issuance of deferred fuel cost bonds, "including the avoidance of or significant mitigation of abrupt and significant increases in rates to the electric utility's customers for the applicable time period."[399]

Mr. Gaskill pointed out that the current deferral balance is nearly 30% higher than the beginning deferral balance from 2022. He emphasized that Dominion is committing billions of dollars of capital investments over the next several years in addition to its day-to-day operating costs.[400]

Mr. Gaskill opposed Direct Energy witness Lacey's recommendations on partially exempt customers and future customers. Mr. Gaskill testified that Dominion must include the July 1, 2020 – June 30, 2021 period in its pro-rata partially exempt and opt out customer calculations. He pointed to statutory references to "the period when the deferred fuel costs to be financed were incurred" and "the period that such charges were incurred."[401] He indicated that at the conclusion of the July 1, 2020 – June 30, 2021 fuel year, Dominion had an under-recovery balance of $165 million and the prior period rate approved for July 1, 2021 – June 30, 2022, only

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[395] Tr. at 397-99 (D. Johnson).
[396] Tr. at 409-10 (D. Johnson); Ex. 4 (Petition) at Appendix B, Attachment 5.
[397] Ex. 45 (Gaskill rebuttal) at 3-4.
[398] *Id.* at 7.
[399] *Id.* at 4-5.
[400] *Id.* at 7-8.
[401] *Id.* at 10-11 (citing Code § 56-249.6:2 O and 2023 Va. Acts chs. 757, 775, Enactment Clause 4).

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collected approximately $71 million. He concluded that the $94 million balance represents fuel costs that were incurred during the July 2020 – June 30, 2021 fuel year, and remained uncollected as of June 30, 2022.[402]

Mr. Gaskill opposed Mr. Lacey's suggestion that customers that may have switched to a competitive service provider during July 2020 through November 2020, should be owed a credit. Mr. Gaskill found a credit inconsistent with the statutory requirement for exempt retail customers to be "responsible for [their] pro rata share of deferred fuel cost charges." He added that any such credits would increase the deferred fuel balance to be securitized and thereby increase the costs paid by all other customers.[403]

Mr. Gaskill also opined that the Code requires future customers to pay the nonbypassable charge if securitization is approved. He further indicated that, from a practical standpoint, excluding future customers would prohibit the ability to even finance the deferred fuel cost bonds.[404]

Mr. Gaskill authenticated a discovery response that explained the Company's interpretation of the statutory phrase "exempt retail access customers."[405] He also authenticated his prefiled testimony from the 2022 Fuel Case.[406]

On rebuttal, **Mr. Reed** echoed Mr. Gaskill's emphasis on relative rate impacts.[407] He testified as follows:

> I reiterate here that the most important securitization benefits implicit in the Company's proposal are those of rate smoothing and rate shock avoidance. These benefits outweigh the nominal risks associated with cost uncertainty, and strike a reasonable balance in avoiding long-term cross-subsidization or intergenerational equity issues.[408]

In response to Staff witness Wadler's net present value calculations, Mr. Reed testified that the results provided in his direct testimony are simplified and conservative. He calculated a $70.38 million net present value customer benefit for Dominion's 15-year scenario, applying Mr. Wadler's cash flow rendering,[409] and a $53.20 million benefit using the same approach from Mr. Reed's direct testimony.[410]

Turning to intergenerational equity, Mr. Reed does not believe that the level of the cost shift would be overly burdensome or troublesome to the extent that it should deny the benefit of rate smoothing or avoided rate shock. He further indicated that there is seldom a perfect match

[402] Ex. 45 (Gaskill rebuttal) at 11.
[403] *Id.* at 12.
[404] *Id.* at 13-14.
[405] Ex. 47.
[406] Ex. 48.
[407] Ex. 50 (Reed rebuttal) at 5-6.
[408] *Id.* at 4-5.
[409] *Id.* at 6.
[410] Ex. 20 (Reed securitization direct) at 9.

between the periods of cost recovery and cost incurrence.[411] Mr. Reed indicated that regulators do not find traditional cost recovery for decarbonization problematic even though the costs will be front-end loaded while the benefits will be "at least as much in future decades."[412] He also indicated that while concerns over rate "pancaking" are always at issue in utility ratemaking, the proposed securitization charges are relatively modest, especially in the context of alternative near-term rate impacts.[413] When discussing the 15-year option, Mr. Reed acknowledged that a longer securitization period "delinks the period of cost responsibility and the period of cost causation even further than the Company's two scenarios" and may heighten any concerns about intergenerational equity.[414]

Mr. Reed is not concerned about Commission oversight because the securitization process will be closely monitored by the underwriters and the Commission "to ensure that the bonds are structured and priced in a manner to result in transparent and tangible customer benefits."[415] He further asserted that the Commission oversight process outlined by Company witness Atkins enhances cost certainty consistent with the financing order.[416]

In Mr. Reed's opinion, "[a] term of up to approximately ten years strikes a reasonable balance among rate shock mitigation, customer savings, and minimization of intergenerational equity issues, with the first factor of rate smoothing meriting the greatest weight in the analysis under these circumstances. . . ."[417]

Mr. Reed characterized partial securitization as a "step backwards" with respect to bill increases and overall net savings.[418] He indicated that while there is a benefit to preserving the 3.28% carrying charge for the approximately $577 million amount covered by the *2022 Fuel Order*, that benefit is undermined because the $577 million amount would be recovered over 19 months, rather than the longer period provided by securitization.[419] Referencing the $8.8 million customer value attributed to last year's agreement to limit the carrying charge to 50% of the Company's weighted average cost of capital, Mr. Reed indicated that with securitization you're essentially "buying an elongation of the recovery period from 19 months to 10 years."[420]

According to Mr. Reed, securitizations of capital assets and fuel costs are structured similarly. In his view, they have different focuses – the former to reduce carrying charges, and the latter to elongate the period for cost recovery.[421]

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[411] Ex. 50 (Reed rebuttal) at 7.
[412] *Id.* at 8.
[413] *Id.*
[414] *Id.* at 10.
[415] *Id.* at 9.
[416] *Id.*
[417] *Id.* at 10.
[418] Tr. at 448-49 (Reed).
[419] Tr. at 449 (Reed).
[420] Tr. at 456 (Reed).
[421] Tr. at 453 (Reed).

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Mr. Atkins presented the 15.25-year securitization option developed, but not supported, by the Company using the same June 12, 2023 benchmark interest rates from the Petition.[422] By extending the repayment period, this option lowers the annual revenue requirement (as calculated by Dominion) to $124.3 million, compared to $165.8 million and $220.6 million for the 10.25-year option and 7.25-year option, respectively.[423]

Mr. Atkins believes Staff witness Myers' concerns about Commission oversight may be overstated because of safeguards in Code § 56-249.6:2 and the proposed financing order. He pointed to the issuance advice letter process in which Dominion – after bond terms are finalized but before issuance – would certify to the Commission, among other things, that:

> (1) the aggregate principal amount of deferred fuel cost bonds does not exceed the securitizable balance;
>
> (2) the deferred fuel cost bonds will be issued in one or more series comprised of one or more tranches having a scheduled final payment date of no longer than approximately 10 years;
>
> (3) the deferred fuel cost bonds have received a preliminary rating of Aaa(sf)/AAA(sf) from at least two of the three major rating agencies;
>
> (4) the deferred fuel cost bonds are structured to achieve substantially level debt service payments on an annual basis;
>
> (5) the issuance of the deferred fuel cost bonds has been structured in accordance with IRS Rev. Proc. 2005-62; and
>
> (6) the structuring and pricing of the deferred fuel cost bonds resulted in reasonable deferred fuel cost charges consistent with market conditions at the time the deferred fuel cost bonds are priced and the terms set forth in [the] financing order.[424]

Mr. Atkins opined that the Commission could issue an order stopping the securitization if the Commission finds that the transaction does not comply with the standards of the financing order or if Dominion does not submit the required certification. He pointed out that the proposed financing order also directs Dominion to provide the Commission or Staff with timely information on the material aspects relating to the structuring, pricing, and financing costs relating to the deferred fuel cost bonds "and participate as directed by the Commission."[425] He also indicated that the securitization true-up process would be subject to review and administrative approval by the Commission, consistent with Code § 56-249.6:2.[426]

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[422] Ex. 51 (Atkins rebuttal) at 5-6, attached Rebuttal Sched. 1.
[423] *Id.* at 5.
[424] *Id.* at 3-4.
[425] *Id.* at 4.
[426] *Id.* at 5.

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Mr. Atkins testified that a AAA-rating cannot be achieved without a nonbypassable rate that applies to existing and new customers. Of the more than 30 utility securitization transactions on which he has served as a company advisor or lead banker, all have had such a nonbypassable rate.[427]

According to Mr. Atkins, only one of 95 utility securitizations have included a call provision. He explained the circumstances of that utility securitization and indicated that it also included a make whole provision. He does not expect any future utility securitizations are likely to include a call provision.[428]

Ms. Lecky sponsored the $124.3 million annual revenue requirement calculation, along with an estimated total revenue requirement of $1.864 billion, associated with the 15.25-year securitization option.[429]

Mr. Stuller updated the rate calculations from his direct testimony by: (1) correcting the uncollectibles rate (to 0.55%, rather than 0.055%); and (2) incorporating actual data through June 2023 into, and removing one double-counted customer from, the effective kWh calculation.[430] He provided corrected nonbypassable charge rates estimated for the 7.25-year and 10.25-year securitization options, and also provided estimated charges for the 15.25-year option developed by the Company.[431] Mr. Stuller sponsored updated tariffs reflecting his rebuttal calculations.[432]

CODE

Fuel factor proceedings are conducted pursuant to Code § 56-249.6, which states in part as follows:[433]

> C. [Dominion] shall submit annually to the Commission its estimate of fuel costs, including the cost of purchased power, for successive 12-month periods beginning on July 1, 2007, and each July 1 thereafter. Upon investigation of such estimates and hearings in accordance with law, the Commission shall direct [Dominion] to place in effect tariff provisions designed to recover the fuel costs determined by the Commission to be appropriate for such periods, adjusted for any over-recovery or under-recovery of fuel costs previously incurred;
>
> D. In proceedings under subsections A and C:
>
> > 1. Energy revenues associated with off-system sales of power shall be credited against fuel factor expenses in an amount equal to the total incremental fuel factor

[427] Tr. at 460-61 (Atkins).
[428] Tr. at 462-63 (Atkins).
[429] Ex. 53 (Lecky rebuttal) at 2 and attached Scheds. 1, 2.
[430] Ex. 54 (Stuller rebuttal) at 2 and attached Scheds. 1, 2.
[431] *Id.* at 3-5.
[432] *Id.* at attached Scheds. 3-6.
[433] Both statutes identified in this Code section of the Report use phrases or a definition to refer specifically to Dominion. This section of the Report replaces such statutory references with "[Dominion]."

costs incurred in the production and delivery of such sales. In addition, 75 percent of the total annual margins from off-system sales shall be credited against fuel factor expenses; however, the Commission, upon application and after notice and opportunity for hearing, may require that a smaller percentage of such margins be so credited if it finds by clear and convincing evidence that such requirement is in the public interest.... For purposes of this subsection, "margins from off-system sales" shall mean the total revenues received from off-system sales transactions less the total incremental costs incurred; and

> 2. The Commission shall disallow recovery of any fuel costs that it finds without just cause to be the result of failure of the utility to make every reasonable effort to minimize fuel costs or any decision of the utility resulting in unreasonable fuel costs, giving due regard to reliability of service and the need to maintain reliable sources of supply, economical generation mix, generating experience of comparable facilities, and minimization of the total cost of providing service....

E. The Commission is authorized to promulgate, in accordance with the provisions of this section, all rules and regulations necessary to allow the recovery by electric utilities of all of their prudently incurred fuel costs under subsections A and C, including the cost of purchased power, as precisely and promptly as possible, with no over-recovery or under-recovery, except as provided in subsection C, in a manner that will tend to assure public confidence and minimize abrupt changes in charges to consumers.

The instant proceeding is novel in that the Commission has combined its evaluation of Dominion's fuel factor filing with its consideration of a related petition by Dominion to securitize a portion of its fuel costs pursuant to Code § 56-249.6:2, a new statute enacted during the 2023 General Assembly Session.[434] Code § 56-249.6:2 authorizes Dominion to seek Commission approval to securitize such costs, specifies what must be included in any securitization petition filed under the statute, and specifies what any Commission order approving securitization must include. Code § 56-249.6:2 states in part as follows:

> Notwithstanding the provisions of § 56-249.6 or Chapter 3 (§ 56-55 et seq.), [Dominion], on or before July 1, 2024, may petition the Commission for a financing order and the Commission shall either issue (i) such financing order or (ii) an order rejecting the petition, no more than four months from the date of filing such petition and in accordance with the requirements of subdivision 2.[435]
>
> The petition shall include (i) an estimate of the total amount of deferred fuel costs that the electric utility has incurred over the time period noted in the petition; (ii) an indication of whether the electric utility proposes to finance all or a portion of the deferred fuel costs using one or more series or tranches of deferred fuel cost bonds; (iii) an estimate and details of the financing costs related to the deferred fuel costs to be financed through the deferred fuel cost bonds; (iv) an estimate of the deferred fuel cost charges necessary to recover the deferred fuel costs and all financing costs and the proposed period for

[434] 2023 Va. Acts chs. 757, 775.
[435] Code § 56-249.6:2 A.

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recovery of such costs; (v) a description of any benefits expected to result from the issuance of deferred fuel cost bonds, including the avoidance of or significant mitigation of abrupt and significant increases in rates to the electric utility's customers for the applicable time period; and (vi) direct testimony and exhibits supporting the petition. If the electric utility proposes to finance a portion of the deferred fuel costs, the electric utility shall identify in the petition the specific amount of deferred fuel costs for the applicable time period to be financed using deferred fuel cost bonds....[436]

A financing order issued by the Commission pursuant to this section shall include:

(1) The amount of deferred fuel costs to be financed using deferred fuel cost bonds. The Commission shall describe and estimate the amount of financing costs that may be recovered through deferred fuel cost charges. The financing order shall also specify the period over which deferred fuel costs and financing costs may be recovered and whether the deferred fuel cost bonds may be offered and issued in one or more series or tranches during a fixed period not to exceed one year after the date of the financing order;

(2) A finding that the proposed issuance of deferred fuel cost bonds is in the public interest and the associated deferred fuel cost charges are just and reasonable;

(3) A finding that the structuring and pricing of the deferred fuel cost bonds are reasonably expected to result in reasonable deferred fuel cost charges consistent with market conditions at the time the deferred fuel cost bonds are priced and the terms set forth in such financing order;

(4) A requirement that, for so long as the deferred fuel cost bonds are outstanding and until all financing costs have been paid in full, the imposition and collection of deferred fuel cost charges authorized under a financing order shall be non-bypassable and paid by all retail customers of [Dominion], irrespective of the generation supplier of such customer, except for an exempt retail access customer;

(5) A formula-based true-up mechanism for making annual adjustments to the deferred fuel cost charges that customers are required to pay pursuant to the financing order and for making any adjustments that are necessary to correct for any overcollection or undercollection of the charges or to otherwise ensure the timely payment of deferred fuel cost bonds and financing costs and other required amounts and charges payable in connection with the deferred fuel cost bonds;

(6) The deferred fuel cost property that is, or shall be, created in favor of [Dominion] or its successors or assignees and that shall be used to pay or secure deferred fuel cost bonds and all financing costs;

(7) The authority of [Dominion] to establish the terms and conditions of the deferred fuel cost bonds, including repayment schedules, expected interest rates, the issuance

[436] Code § 56-249.6:2 A 1.

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in one or more series or tranches with different maturity dates, and other financing costs;

(8) A finding that the deferred fuel cost charges shall be allocated among customer classes in accordance with the methodology approved in [Dominion]'s last fuel factor proceeding;

(9) A requirement that after the final terms of an issuance of deferred fuel cost bonds have been established and before the issuance of deferred fuel cost bonds, [Dominion] determines the resulting initial deferred fuel cost charge in accordance with the financing order and that such initial deferred fuel cost charge be final and effective upon the issuance of such deferred fuel cost bonds without further Commission action so long as such initial deferred fuel cost charge is consistent with the financing order;

(10) A method of tracing funds collected as deferred fuel cost charges, or other proceeds of deferred fuel cost property, and a requirement that such method be the method of tracing such funds and determining the identifiable cash proceeds of any deferred fuel cost property subject to the financing order under applicable law; and

(11) Any other conditions not otherwise inconsistent with this section that the Commission determines are appropriate.[437]

...

A financing order issued to [Dominion] may provide that creation of [Dominion]'s deferred fuel cost property is conditioned upon, and simultaneous with, the sale or other transfer for the deferred fuel cost property to an assignee and the pledge of the deferred fuel cost property to secure deferred fuel cost bonds.[438]

If the Commission issues a financing order, the Commission shall establish a protocol for [Dominion] to annually file a petition or, in the Commission's discretion, a letter setting out application of the formula-based mechanism and, based on estimates of consumption for each rate class and other mathematical factors, requesting administrative approval to make applicable adjustments.[439]

...

A financing order shall remain in effect and deferred fuel cost property under the financing order shall continue to exist until deferred fuel cost bonds issued pursuant to the financing order have been paid in full or defeased and, in each case, all Commission-approved financing costs of such deferred fuel cost bonds have been recovered in full.[440]

[437] Code § 56-249.6:2 A 2 b.
[438] Code § 56-249.6:2 A 2 c.
[439] Code § 56-249.6:2 A 2 d.
[440] Code § 56-249.6:2 A 4 a.

Among other parts of the 2023 legislation are provisions, including definitions and enactment clauses, that codify detailed protections for any costs securitized pursuant to the statute;[441] exempt certain retail access customers from paying deferred fuel cost charges, but require some to pay their pro rata share of such costs;[442] allow certain customers the opportunity to opt out of paying financing costs for securitized fuel costs;[443] and broadly define such financing costs.[444] Among the definitions in Code § 56-249.6:2 are the following:[445]

> "Deferred fuel cost charge" means the nonbypassable charges authorized by the Commission to repay, finance, or refinance deferred fuel costs and financing costs (i) imposed on and part of all retail customer bills, except those of exempt retail access customers; (ii) collected by [Dominion] or its successor or assignees, or a collection agent, in full, separate and apart from [Dominion]'s base rates; and (iii) paid by all retail customers of [Dominion], irrespective of the generation supplier of such customer, except for an exempt retail access customer.
>
> "Deferred fuel cost property" includes:
>
> 1. All rights and interests of [Dominion] or successor or assignee of [Dominion] under a financing order, including the right to impose, bill, charge, collect, and receive deferred fuel cost charges authorized under the financing order and to obtain periodic adjustments to such charges as provided in the financing order; and
>
> 2. All revenues, collections, claims, rights to payments, payments, money, or proceeds arising from the rights and interests specified in the financing order, regardless of whether such revenues, collections, claims, rights to payment, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, rights to payment, payments, money, or proceeds.
>
> "Deferred fuel costs" means the unrecovered amounts of previously incurred costs of fuel used to generate electricity, including the costs of purchased power, that have been deferred by [Dominion] for future recovery from the utility's customers, along with financing costs on the utility's fuel deferral balance.
>
> . . .

[441] *See, e.g.*, Code § 56-249.6:2 D.
[442] Code § 56-249.6:2 A 2 b (4); Code § 56-249.6:2 O.
[443] 2023 Va. Acts chs. 757, 775, Enactment Clause 4.
[444] Code § 56-249.6:2 O.
[445] *Id.*

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"Exempt retail access customer" means a retail customer of [Dominion] that, pursuant to the provisions of § 56-577 or 56-577.1, purchased electric energy exclusively from a supplier of electric energy licensed to sell retail electric energy exclusively within the Commonwealth other than [Dominion], or that purchased electric energy from [Dominion] pursuant to a Commission-approved market-based tariff, during the period when the deferred fuel costs to be financed were incurred. Such exemption shall be prorated to the extent an otherwise exempt retail customer purchased electric energy from [Dominion], in which case the retail customer shall be responsible for its pro rata share of deferred fuel cost charges authorized under a financing order.

"Financing costs" means:

1. Interest and any premium, including any acquisition, defeasance, or redemption premium, payable on deferred fuel cost bonds;
2. Any payment required under any indenture, ancillary agreement, or other financing documents pertaining to deferred fuel cost bonds and any amount required to fund or replenish a reserve account or other accounts established under the terms of any indenture, ancillary agreement, or other financing documents pertaining to deferred fuel cost bonds;
3. Any other costs related to structuring, offering, issuing, supporting, repaying, refunding, servicing, and complying with deferred fuel cost bonds, including service fees, accounting and auditing fees, trustee fees, legal fees, consulting fees, structuring adviser fees, administrative fees, placement and underwriting fees, independent director and manager fees, capitalized interest, rating agency fees, stock exchange listing and compliance fees, security registration fees, filing fees, information technology programming costs, and any other costs necessary to otherwise ensure the timely payment of deferred fuel cost bonds or other amounts or charges payable in connection with the bonds, including costs related to obtaining the financing order;
4. Any taxes and license fees or other fees imposed on the revenues generated from the collection of deferred fuel cost charges or otherwise resulting from the collection of deferred fuel cost charges, in any such case whether paid, payable, or accrued;
5. Any state and local taxes, franchise, gross receipts, and other taxes or similar charges, including regulatory assessment fees, whether paid, payable, or accrued;
6. Any costs incurred by the Commission for any outside consultants or counsel retained in connection with the securitization of deferred fuel costs; and
7. Any financing costs on the utility's fuel deferral balance prior to issuance of any fuel cost bonds, calculated at the utility's approved weighted average cost of capital.

The legislation provides as follows for certain customers to opt out of financing Dominion's securitization:[446]

That [Dominion] ..., in connection with any financing order petition filed with the [Commission] prior to December 31, 2023, pursuant to [§ 56-249.6:2] of the Code of Virginia, as created by this act, shall permit any retail customer that is receiving electric supply service from the utility and whose demand exceeded five megawatts during the calendar year prior to such petition to opt out of financing its pro rata obligation for

[446] 2023 Va. Acts chs. 757, 775, Enactment Clause 4.

deferred fuel cost charges through deferred fuel cost bonds. The utility shall notify such eligible customers of their eligibility to opt out of the deferred fuel cost financing through its annual petition with the Commission pursuant to § 56-249.6 of the Code of Virginia, and any election to opt out of the deferred fuel cost financing by an eligible customer shall be provided in writing to the utility within 30 days of the filing of such petition. Upon such election, the eligible customer shall fully satisfy such customer's pro rata obligation for the deferred fuel cost charges subject to financing, as determined based on such customer's electric usage over the period that such charges were incurred, over the 12-month period prescribed by subsection C of § 56-249.6 of the Code of Virginia that is associated with such annual petition. In the event of such election, any deferred fuel cost charges approved for recovery through deferred fuel cost bonds shall not include the obligations of eligible customers opting out of the deferred fuel cost financing.

Dominion's Petition for Exemption seeks an exemption from the filing and prior approval requirements of § 56-77 A of the Affiliates Act. Dominion filed this request pursuant to the following provisions of Code § 56-77 B:

> The Commission may, in its discretion and upon petition of the public service company or upon the Commission's own action, choose to exempt a public service company from all or any part of the requirements imposed by subsection A if the Commission determines that such an exemption is in the public interest.

ANALYSIS

The primary issue for the Commission in these cases is whether to authorize Dominion to issue securitized bonds. Because the appropriate fuel factor rate depends in large part on whether securitization is authorized, the analysis below begins with the securitization Petition (Section I), followed by the fuel factor Application (Section II).

I. SECURITIZATION PETITION

A. Deferred Fuel Cost Balance and Amount Proposed for Securitization

The amount of costs that Dominion would securitize, if approved by the Commission, informs much of the analysis in this case. Code § 56-249.6:2 also requires any Commission financing order authorizing securitization to identify the amount of deferred fuel costs to be financed using securitized bonds and to estimate the amount of financing costs that may be recovered through the associated nonbypassable charge.[447]

As updated, Dominion requested authority to securitize approximately $1.282 billion. This amount includes $1.283 billion of deferred fuel costs as of June 30, 2023, plus $12.5 million of estimated upfront financing costs of the transaction, minus $13.7 million of payments expected from opt out and partially exempt customers.[448]

[447] Code § 56-249.6:2 A 2 b (1).

[448] Dominion also estimated ongoing, annual financing costs of approximately $1.3 million. Ex. 22 at 2, 4, 5.

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Two issues raised in this proceeding could affect the expected payments from partially exempt customers and therefore the total amount to be securitized. Those two issues are discussed below.

1. Partially Exempt Customer Responsibility for Deferred Fuel Costs From the 2020-2021 Fuel Year

Code § 56-249.6:2 defines "Deferred fuel costs" as "the unrecovered amounts of previously incurred costs of fuel ... that have been deferred by an electric utility for future recovery from the utility's customers, along with financing costs on the utility's fuel deferral balance."[449] The statute also directs that a securitization petition "shall include (i) an estimate of the total amount of deferred fuel costs that the electric utility has incurred over the time period noted in the petition."[450] The total amount of fuel costs that Dominion had deferred on its books, as of June 30, 2023, is not contested.

Code § 56-249.6:2 makes "partially exempt" customers who, during the period when the deferred fuel balance was incurred, took standard service from Dominion for part of the time and either took service under a market-based rate tariff from Dominion or accessed the competitive market for the other part of time. The statutory language carving out partially exempt (and exempt) customers is shown below.

> "Exempt retail access customer" means a retail customer of [Dominion] that, pursuant to the provisions of § 56-577 or 56-577.1, purchased electric energy exclusively from a supplier of electric energy licensed to sell retail electric energy exclusively within the Commonwealth other than [Dominion], or that purchased electric energy from [Dominion] pursuant to a Commission-approved market-based tariff, during the period when the deferred fuel costs to be financed were incurred. *Such exemption shall be prorated to the extent an otherwise exempt retail customer purchased electric energy from [Dominion], in which case the retail customer shall be responsible for its pro rata share of deferred fuel cost charges authorized under a financing order.*[451]

Direct Energy recognized that the Company's proposed tariff assigned cost responsibility for partially exempt customers back to July 2020, although Direct Energy found no explanation in the Petition as to why the subject charges would date back to July 1, 2020.[452] Dominion witness Gaskill testified that the Company must include the July 1, 2020 – June 30, 2021 period in its pro-rata partially exempt customer calculations because of the statutory references to "the period when the deferred fuel costs to be financed were incurred" and "the period that such charges were incurred."[453] Mr. Gaskill indicated that at the conclusion of the July 1, 2020 – June 30, 2021 fuel year, Dominion had an under-recovery balance of $165 million and the prior period rate approved for July 1, 2021 – June 30, 2022, only collected approximately $71 million.

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[449] Code § 56-249.6:2 O.
[450] Code § 56-249.6:2 A 1 (i).
[451] Code § 56-249.6:2 O (emphasis added).
[452] Ex. 30 (Lacey) at 8.
[453] Ex. 45 (Gaskill rebuttal) at 10-11 (citing Code § 56-249.6:2 O and 2023 Va. Acts chs. 757, 775, Enactment Clause 4).

He concluded that the $94 million balance represents fuel costs that were incurred during the July 2020 – June 30, 2021 fuel year, and remained uncollected as of June 30, 2022.[454]

Direct Energy witness Lacey indicated that he would take Mr. Gaskill's testimony on its face, because he could not prove or disprove it.[455]

The record supports a finding that the deferred fuel balance dates back to the July 1, 2020 – June 30, 2021 fuel year, and therefore so does the scope of the statutory partial exemption. The $165 million deferred fuel balance at the conclusion of the July 1, 2020 – June 30, 2021 fuel year, as identified by Company witness Gaskill, would have been provided and known no later than last year's fuel case. To have eliminated this balance with the 0.1005¢/kWh prior period factor effective July 1, 2021, through June 30, 2022,[456] would have required the Company to sell twice as much energy[457] as the Company projects it will sell during the current fuel year.[458]

2. Rate Credits for Partially Exempt Customers

As discussed above, partially exempt customers took standard service from Dominion only part of the time when the deferred fuel balance was incurred during July 1, 2020, through June 30, 2023. To calculate a partially exempt customer's pro rata share of deferred fuel cost charges pursuant to Code § 56-249.6:2,[459] Dominion proposed multiplying these customers' usage during the months when they took standard service from Dominion by essentially a monthly over- or under-recovery factor.[460] Dominion then added up all these monthly amounts. If the total is positive, that would be the customer's pro rata share of deferred fuel cost charges that the customer would be responsible for under the statutory language emphasized above. If the total is negative, the Company proposes that the customer would not be responsible for any deferred fuel charge cost[461] and would receive no credit.[462]

If securitization is approved, Direct Energy argued that partially exempt shopping customers should be awarded credits for monthly "overpayments" during twelve months when Dominion had an over-recovery of fuel costs between July 2020 through June 2023.[463] Direct Energy and Calpine[464] argued that such credits are fair and required by the statutory "pro rata share" language. Direct Energy argued, for example, that if partially exempt customers "are not returned [] their credits, they will be subsidizing the other customers through the lower deferred

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[454] Ex. 45 (Gaskill rebuttal) at 11.
[455] Tr. at 253 (Lacey).
[456] *Application of Virginia Electric and Power Company, To revise its fuel factor pursuant to § 56-249.6 of the Code of Virginia*, Case No. PUR-2021-00097, 2021 S.C.C. Ann. Rep. 481, 482, Order Establishing 2021-2022 Fuel Factor (June 29, 2021).
[457] $165,000,000/$0.001005 = 164.2 billion kWh or 164.2 million MWh.
[458] *See, e.g.*, Ex. 14 (Farmer fuel direct) at attached Sched. 1; Ex. 24 (Stuller fuel direct) at attached Sched. 2.
[459] Code § 56-249.6:2 O.
[460] Ex. 54 (Stuller rebuttal) at attached Sched. 6.
[461] Tr. at 121 (Gaskill).
[462] Ex. 54 (Stuller rebuttal) at attached Sched. 6 ("the greater of ... or (b) zero").
[463] Tr. at 47 (Wallace). The twelve months are July 2020 through November 2020, October 2022, and January 2023 through June 2023. Ex. 54 (Stuller rebuttal) at Attached Sched. 6.
[464] Tr. at 43-44 (Howell).

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fuel balance. The statute does not allow Dominion to eliminate pro rata credits due to customers that overpaid."[465]

Dominion opposed paying any such credits, which the Company argued would be inconsistent with the statutory requirement for exempt retail customers to be "responsible for [their] pro rata share of deferred fuel cost charges."[466]

Direct Energy and Calpine's argument for a rate credit is based on its interpretation of Code § 56-249.6:2 O. I do not see any language in Code § 56-249.6:2 that contemplates the payment of credits to customers. Instead, as shown above in Section I.A.1 of this Report's Analysis, the statute creates: (1) a full exemption; and (2) a prorated exemption with a pro rata payment responsibility ("shall be responsible for its pro rata share of deferred fuel cost charges").[467] Contrary to the language of the statute, Direct Energy and Calpine's argument would change the partial payment responsibility identified under Code § 56-249.6:2 O into a potential reward (and, in doing so, shift payment responsibility to other ratepayers).

With respect to arguments regarding fairness, while the plain language of the Code appears to control, I recognize that this case highlighted the tension securitization presents for various customer interests, as discussed below. However, unlike partial exemption customers, most Dominion customers would not have an opportunity for a securitization charge of zero. This includes standard tariff customers that joined Dominion's system between January 2023 through June 2023. These customers can similarly claim that they did not contribute to the deferred fuel balance, but they will be required to help pay down this balance through either the fuel factor or nonbypassable securitization charges.

B. Primary Factors and Issues for Consideration of the Proposed Securitization

According to Dominion, the 2023 legislation authorizing securitization of deferred fuel costs does not limit the factors that the Commission may consider when determining whether or not to approve securitization.[468] I read the law the same way. Code § 56-249.6:2 specifies, among other things, what a utility securitization petition and a Commission order approving securitization must contain, including a requirement that any such order must find "that the proposed issuance of deferred fuel cost bonds is in the public interest and the associated deferred fuel cost charges are just and reasonable."[469] While the legislation prohibits the Commission from taking certain actions, the statute does not limit the factors the Commission may consider when determining whether securitization is in the public interest and whether the associated nonbypassable charges are just and reasonable.

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[465] Tr. at 481 (Wallace).
[466] Ex. 45 (Gaskill rebuttal) at 12.
[467] Code § 56-249.6:2 O.
[468] Ex. 19 (D. Johnson securitization direct) at 16.
[469] Code § 56-249.6:2 A 2 b (2).

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In a ratemaking context, the public interest standard typically considers the interests of, among other things, ratepayers and their regulated public utility.[470] The Staff chart shown below highlights some of the pros and cons of recovering the deferred fuel costs through nonbypassable charges (after securitization) or, alternatively, through fuel factor rates.[471]

Pros and Cons - Fuel Factor vs. DFC Securitization

	Fuel Factor		**DFC Securitization**	
	Company	Customers	Company	Customers
Pros:	- Certainty of cost recovery of DFC balance - Earns carrying costs (including interest expense and profit margin) on DFC Balance	- Certainty of total cost of DFC balance - Costs on bills for shorter period of time (19-31 months) - Fewer intergenerational equity concerns - Continuing Commission oversight of fuel factor rate	- Certainty of cost recovery of DFC balance - Cost recovery in lump sum at bond issuance - Cash flow can be used to reinvest	- Lower monthly bill impacts - Bill savings in near term
Cons:	- Cost recovery of DFC Balance over 19-31 months	- Higher monthly bill impacts in near term - No bill savings in near term	- Company has responsibility to administer securitization over longer term (7-10 years)	- Uncertainty of total cost/bill impacts until after bond issuance - Extended payments over longer term (7-10 years) - More intergenerational equity concerns - No Commission oversight post financing order of rate charged to customers

[470] VPLC asserted that the phrase "in the public interest" should be interpreted as "in the customers' interests." Tr. at 517 (Reisinger). My analysis, like the Staff "pros and cons" chart, is based on the traditional understanding of this phrase.

[471] Ex. 38 (Myers) at 7.

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While the pros and cons identified above are from the perspectives of Dominion and its customers, the implications of the proposed securitization extend beyond Dominion and its ratepayers. Not listed on the above table, among others, is a significant beneficiary of securitization: bondholders. These investors in securitized utility bonds would receive a yield above what is typically considered a risk-free rate for a product that structural and legal protections appear to remove any risk of default.[472]

Some of the primary factors and issues the case participants have asked the Commission to consider in this proceeding, which include the pros and cons identified by Staff, are discussed below. These are (1) customer bill impacts; (2) customer net present value; (3) intergenerational equity; (4) legal options for recovery; (5) loss of Commission oversight; and (6) cashflow.

1. Customer Bill Impacts

Attachment 1 to the Hearing Examiner's Report is an exhibit prepared by Dominion and Staff that illustrates monthly residential bill impacts associated with various recovery options.[473] A few caveats: the options shown are not the only possible outcomes identified in the record;[474] the legality and/or practicality of some of the listed options have been questioned; and all of the bill impacts are estimates, with varying degrees of uncertainty.[475] The options included in Attachment 1 are:

(1) Dominion's "status quo" fuel factor recovery, which contemplates a 19-month recovery of the deferred fuel balance if securitization is not approved.

(2) Staff's alternative fuel factor recovery, which assumes level fuel factor recovery of the deferred fuel balance over 31 months.

(3) (4) and (5) Securitizations of the full deferred fuel balance of $1.282 billion with bond tenors of approximately seven, ten, and fifteen years, respectively.

(6) and (7) Abandoned securitization options, which contemplate fuel factor recovery of the full deferred fuel balance over sixteen or twelve months, respectively, in the event the Commission approves securitization but Dominion does not issue securitized bonds.

(8) and (9) Partial securitization options, which contemplate: (a) securitization of a deferred fuel balance of $705.5 million accrued from July 2022 through June 2023, with bond tenors of approximately seven or ten years; and (b) 19-month fuel factor recovery of the

[472] Tr. at 206-08 (Atkins). Dominion expects to achieve a AAA rating for these bonds, notwithstanding the recent downgrade of U.S. Treasuries from this rating by one rating agency. Tr. at 163-65 (D. Johnson).
[473] Ex. 8. These figures incorporate the updated deferred fuel balance that Dominion witness Gaskill's supplemental testimony indicates would be subject to securitization. Tr. at 88 (Gaskill).
[474] For example, Appalachian Voices suggested a five-year fuel factor recovery option. If the Commission considers a fuel factor recovery duration of this length, a seven-year AAA securitized bond that takes the deferred fuel balance off the Company's books with customers paying interest priced at a spread above Treasury bonds would be preferable to a five-year fuel factor recovery financed at Dominion's weighted average cost of capital, in my opinion.
[475] *See, e.g.*, Tr. at 310-11 (Myers).

$577 million accrued prior to July 2022, which is subject to the mitigation plan approved by the *2022 Fuel Order.*

As shown in Attachment 1, under Dominion's "status quo" fuel factor approach, a residential customer using 1,000 kWh per month would pay $14.72 for seven months, then $10.64 for twelve months, to pay off the deferred fuel balance by June 30, 2025.[476] Under Staff's alternative fuel factor recovery option, the balance would be paid off over 31 months with a monthly bill impact of $7.42, through June 30, 2026. These monthly bill impact amounts for Dominion's and Staff's alternative fuel factor recovery approaches do not include approximately $30 million and $81 million in financing costs that would be considered part of the Company's base rates.[477]

The amount of financing costs associated with securitization (transaction costs and interest) cannot be known until bond issuance, which Dominion anticipates would occur around March 2024, if securitization is approved.[478] However, based on current estimates, spreading customer payments of the approximately $1.3 billion deferred fuel balance over approximately 7, 10, or 15 years through securitization would result in initial monthly bill impacts of approximately $3.10, $2.33, or $1.74, respectively, for a residential customer using 1,000 kWh per month.[479] Over time, these rate impacts would taper down if, as Dominion expects, the Company's load grows.[480] Included in these bill impact figures are estimated financing costs totaling $289 million, $403 million, and $611 million, respectively.[481]

As indicated, the fuel factor recovery bill impact figures discussed above do not include any of the associated financing costs while the securitization bill impact figures do. However, these sets of figures can be compared for purposes of this proceeding because of the current status of Dominion's base rates, through which financing costs (or carrying costs) on deferred fuel balances are recovered by the Company. The record indicates that Dominion's base rates could not be increased for base rate financing costs through 2025 because Dominion has proposed no base rate increase in its pending biennial review of base rates.[482]

Because the monthly bill impact estimates in Attachment 1 illustrate a residential customer using 1,000 kWh per month, they do not represent the impacts on customers with higher or lower energy usage. For example, the Committee emphasized in this proceeding that the monthly impact on an industrial customer using 6 million kWh per month would be roughly 6,000 times the monthly residential bill impacts shown in Attachment 1.[483]

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[476] *See, e.g.*, Ex. 8.
[477] These amounts were calculated using 50% of Dominion's weighted average cost of capital for $578 million of the deferred fuel balance, as stipulated and approved in the 2022 Fuel Case, and otherwise using Dominion's full weighted average cost of capital. Tr. at 348 (Myers).
[478] *See, e.g.*, Ex. 25 (Stuller securitization direct) at 3.
[479] Ex. 8.
[480] *Id.* (showing estimated annual decreases ranging between 5 to 18 cents).
[481] *Id.*
[482] Ex. 28 (Smith) at 8-9; Tr. at 347 (Myers).
[483] Tr. at 225-28 (Stuller); Ex. 27; Tr. at 341-42 (Myers).

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Turning to the partial securitization scenarios, if the Commission approves a 10-year securitization for only the approximately $706 million of the deferred fuel balance that was not subject to last year's mitigation plan, a residential customer using 1,000 kWh per month would pay $7.34 more for seven months and $5.66 more for twelve months, then $1.29 per month tapering down until the deferred fuel balance is paid off around 2033.[484] The impacts beyond the initial $7.34 amount would be higher under a seven-year partial securitization.[485] Such partial securitization scenarios would preserve the customer benefits of last year's mitigation plan by maintaining the favorable carrying charge on the $577 million remaining under that plan.[486] However, Dominion described the bill impacts associated with such an option as "the worst of both worlds" due to the higher initial bill impact (compared to full securitization) and the more extended recovery period (compared to no securitization).[487] Dominion and Staff also agreed that the bill impacts associated with this scenario are more uncertain than the other scenarios because of uncertainty regarding how many customers would opt out of a partial securitization.[488]

As for the possibility of an abandoned securitization, the Code states that "[a]fter the issuance of a financing order, the electric utility shall retain sole discretion regarding whether ... to cause deferred fuel cost bonds to be issued."[489] If the Commission approves full securitization and the Company decides not to issue such bonds, Dominion would effectively be back to "square one" except more time would have passed (and carrying charges accrued) without prior period recovery. As illustrated in Attachment 1, a securitization abandonment scenario could result in higher bill impacts than any other scenario, although Dominion assumes that any increase prior to July 2024 would be limited by the amount noticed in this proceeding.[490]

Accordingly, the record supports a finding that securitization would result in lower monthly bill impacts compared to fuel factor recovery. I agree with Dominion that securitization would provide a beneficial impact to customer bills, although the extent of the estimated benefit depends on what securitization is compared to.[491] In addition, the record estimates of financing cost amounts indicate that securitization would involve a trade-off familiar to many who have taken out a loan. With securitization, customers would get to keep more of their money today, but will ultimately pay more in total.

With respect to the estimated monthly bill impacts discussed above, case participants offered varying perspectives on how such information should be contextualized. Much of this evidence and argument revolved around the statutory requirement for Dominion's Petition to include "a description of any benefits expected to result from the issuance of deferred fuel cost

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[484] *See, e.g.*, Ex. 8.
[485] *Id.*
[486] In the 2022 Fuel Case, Dominion proposed, and the Commission approved, a carrying charge of 50% of the Company's weighted average cost of capital. *2022 Fuel Order*, 2022 S.C.C. Ann. Rep. at 552.
[487] Tr. at 417 (Gaskill).
[488] Tr. at 91-93 (Gaskill); Tr. at 310-11 (Myers). While Dominion indicated that partial securitization is allowed under the statute, the statutory opt-out is a complicating factor. Tr. at 22-24, 30-31 (Ryan); Tr. at 559-60 (Reid).
[489] Code § 56-249.6:2 A 2 e, B 2. Dominion understands it has a statutory right to "walk away" from issuing securitization bonds. Tr. at 152 (D. Johnson).
[490] Tr. at 89-90 (Gaskill).
[491] Tr. at 393 (D. Johnson).

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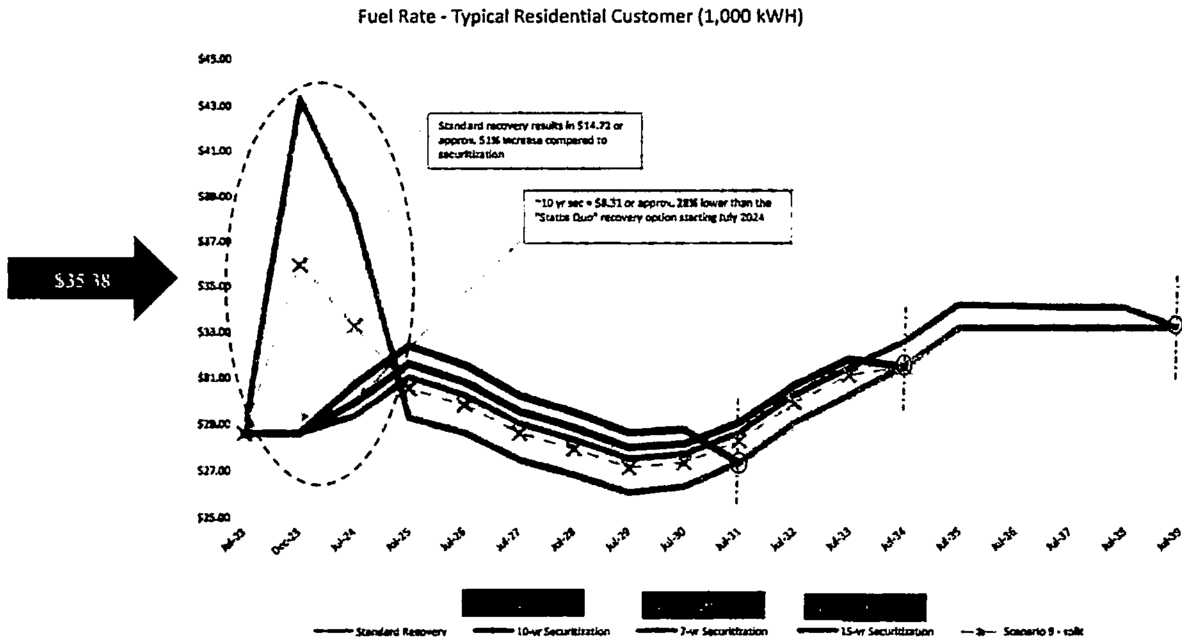
bonds, including the avoidance of or significant mitigation of abrupt and significant increases in rates to the electric utility's customers for the applicable time period."[492] Dominion asserted that securitization would "avoid[] or significant[ly] mitigat[e]" the $14.72, then $10.64, monthly residential increases calculated under Dominion's "status quo" fuel factor recovery with a 19-month recovery of the deferred fuel balance. Staff pointed out that approximately $6.79 of the $14.72 and $10.64 amounts is due to Dominion's proposed interim fuel rate decrease in this case, which became effective July 1, 2023.[493] VPLC questioned whether the Company, by requesting the July 1, 2023 fuel rate decrease, "set up this situation where it can claim rate shock?"[494] These differing perspectives are shown by considering the chart below (which Dominion prepared)[495] – with and without the arrow to its left (which I added).[496]



As shown above, if the pre-interim fuel rate (blue arrow) is used as the baseline, a December 1, 2023 partial securitization increase to Dominion's fuel rates (grey line with Xs) is minimal and a "status quo" increase (orange line) decreases from $14.72 to $7.92. Dominion's chart above also does not include the alternative 31-month fuel factor recovery option presented by Staff. That Staff option (which, as discussed below, Dominion argued is not legal) would lower the monthly bill impact estimate from $7.92 per month to $0.63 per month, compared to the pre-interim fuel rate.[497]

Case participants also emphasized different ways to contextualize the potential fuel factor bill impacts within Dominion's overall rates. Staff presented the following table to broaden the

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[492] Code § 56-249.6:2 A 1 (v).
[493] Tr. at 529 (Clowers); Ex. 40.
[494] Tr. at 344-45 (Reisinger).
[495] Ex. 46.
[496] *See, e.g.*, Tr. at 107 (Gaskill) (identifying the $35.38 amount).
[497] Ex. 40.

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view of residential customer rate impacts from July 1, 2023, to December 1, 2023, if securitization is not approved.[498]

Total Customer Bill Increases/(Decreases)
Including the Fuel Factor Recovery Options

For a residential customer using 1,000 kilowatt-hours
From July 1, 2023 - December 1, 2023

			Company "Status Quo" (1)	Staff Alternative (2)
1	7/1/2023	Fuel Factor Current Factor	($6.79)	($6.79)
2	7/1/2023	Base Rate Roll-in of Riders R, S, and W	($6.75)	($6.75)
3	9/1/2023	Commission-Approved Annual Rider Updates*	$8.28	$8.28
4	11/1/2023	Pending Annual Rider Updates**	$0.81	$0.81
5	12/1/2023	Pending Annual Rider Updates***	($0.58)	($0.58)
6	Cumulative Bill Decrease as of 12/1/23 Before Recovery of Fuel Deferral Balance		($5.03)	($5.03)
7	Fuel Factor Prior Period Increase		$14.72	$7.42
8	Cumulative Bill Increase effective 12/1/23		$9.69	$2.39

* Includes annual updates to Riders US2, SNA, OSW, BW, PPA, RPS, RGGI, C1A, C2A, C3A, C4A and T1
** Includes requested updates to Rider E and Rider PIPP pending Commission approval
*** Includes requested update to Rider CCR pending Commission approval

Dominion indicated that the 2023 legislation has been colloquially referred to as the Rate Reform Act or the Rate Relief Act.[499] Dominion indicated that under Dominion's "status quo" and Staff's alternative fuel factor recovery options, the result would be higher bills six months after this legislation was enacted.[500] Referring to the "status quo" figures above, counsel for Dominion questioned whether, "if the typical customer bill for Dominion's customers goes up by $9.69 on a net basis between July 1, 2023, and the end of the year 2023, does that sound like rate relief[?]."[501] Consumer Counsel indicated that, due largely to increases in Riders RGGI, OSW, and T1 (which recover the costs of carbon dioxide allowances from RGGI, the offshore wind project, and transmission), much of the rate relief that occurred on July 1, 2023, "has already been diluted."[502]

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[498] Ex. 41. *See also* Ex. 26 (including approved and proposed rate changes through September 1, 2024).
[499] Tr. at 360 (Reid), 419 (Gaskill).
[500] Tr. at 421 (Gaskill).
[501] Tr. at 360 (Reid).
[502] Tr. at 525 (Browder).

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Based on my assessment of the record, securitization is one tool to mitigate a near-term increase to Dominion's interim fuel rates and the associated increase to customer bills. A $14.72 monthly increase to a 1,000 kWh residential bill, and the corresponding increases to non-residential bills, would constitute an abrupt and significant increase for Dominion's customers, in my opinion. An approximately $2 to $3 monthly residential bill increase is obviously much less. The record indicates that the magnitude of the mitigation offered by securitization is less if: (a) Dominion's June 30, 2023 fuel rates, rather than its interim fuel rates, are used as the baseline or as part of a total rate baseline; and/or (b) it is assumed that the fuel factor recovery avoided by securitization would occur over a period longer than the 19 months assumed by Dominion's status quo option. However, the 31-month $7.42 monthly increase to a 1,000 kWh residential bill that would result from Staff's alternative option is nonetheless a material impact, in my view.

2. Customer Net Present Value

The future nominal amounts compared above do not account for the time value of money. Because customer payments with and without securitization would occur over different periods of time, net present value analysis makes the value of these payments "apples to apples."[503]

The table below provides a summary of net present value customer benefits calculated by Dominion and Staff.[504]

Comparison of Staff and Company NPV Analyses
(In Millions of Dollars)

	Staff		Company	
	7.25 Year	10.25 Year	7.25 Year	10.25 Year
NPV Benefit vs. "Status Quo"	$ 27.31	$ 46.41	$ 10.16	$ 29.15
NPV Benefit vs. Staff Alternative*	$ 31.44	$ 50.54	$ 14.29	$ 33.28

Dominion witness Reed testified that the net present value calculation would be higher with a 15-year securitization,[505] and that he views all of these estimates as conservative.[506]

While all the above results are positive – meaning they indicate customer benefits from securitization – the underlying calculations must assume the interest rate(s) of the securitized debt, which cannot be known until the time when such debt is issued.[507] More specifically, Dominion's and Staff's calculations assume interest rates of 4.92% and 4.93%, averaged for two

[503] Ex. 31 (Binz) at 13; Ex. 20 (Reed securitization direct) at 19-20.
[504] Ex. 35 (Wadler) at 7.
[505] Ex. 46 (identifying a $53.2 million net present value benefit estimate from 15-year securitization); Ex. 50 (Reed rebuttal) at 6 (estimating a $70.38 million net present value benefit from 15-year securitization, using Dominion's methodology updated to include Staff's rendering of cash flows).
[506] Tr. at 175 (Reed).
[507] *See, e.g.*, Ex. 21 (Atkins securitization direct) at 10-11.

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tranches of debt.[508] If these coupon rates are increased by 63 to 88 basis points, Staff's net present value results become zero.[509] Conversely, if securitization achieves coupon rates lower than 4.92% or 4.93%, the net present value results would be higher (better) than those shown in the table above. The net present value to customers of securitized bonds is directly related to the bonds' coupon rates.[510]

Increased interest rates and associated coupon rates for a bond issuance that, if approved, would occur next spring is a future scenario that could occur. The cost of debt increased in recent years and continued to rise during this case. For example, as of September 5, 2023, the reference Treasury bond rates that Dominion assumes would be used for market pricing of the 7- and 10- year securitized bonds increased by 46 and 45 basis points, respectively, compared to the June 12, 2023 reference rates used in the Petition.[511] Dominion witness Atkins testified that these increases may cause investors to decrease their spread by approximately 10 basis points,[512] with corresponding projected coupon rates 38 and 35 basis points higher than the relevant estimates in the Petition.[513] Whether interest rates will be higher or lower next spring when securitized bonds would be priced will remain unknown until then.

The net present value calculations assume a discount factor, to account for the time value of money. Dominion and Staff incorporate a 6.55% discount factor, which is equivalent to Dominion's after-tax weighted average cost of capital.[514] If this discount factor is increased, the net present value benefits to customers increase.[515] Appalachian Voices witness Binz believes a discount rate as high as 10% could reasonably reflect a customer's valuation of his or her money.[516]

As discussed in the preceding section, and emphasized by Consumer Counsel,[517] the nominal interest costs associated with securitization are not insignificant.[518] Consumer Counsel also highlighted the fact that if the approximately $577 million remaining from the 2022 Fuel Case is securitized, that amount would effectively be refinanced at a coupon rate higher than the 3.28% that the *2022 Fuel Order* approved.[519] Notwithstanding the customer detriment of

[508] *Id.* at 12-13; Ex. 35 (Wadler) at 5. With upfront and ongoing transaction costs, the 4.93% and 4.92% financing rates for a 10.25-year and 7.25-year securitization, respectively, become 5.28% and 5.33%, effectively. Ex. 38 (Myers) at Appendix C, p. 94.
[509] Ex. 35 (Wadler) at 8 and attached Exs. LHW-3 and LHW-4; Tr. at 293 (Wadler). As the net present value benefits calculated by Dominion are less than Staff's, they would become zero with smaller interest rate increases.
[510] *See, e.g.*, Ex. 31 (Binz) at 14.
[511] Ex. 21 (Atkins securitization direct) at attached Sched. 2, pp. 1, 4; Ex. 22, pp. 4-5 (weighted average "Bench Rate"). 4.481% - 4.020% = 0.461%; 4.367% - 3.922% = 0.445%.
[512] Ex. 21 (Atkins securitization direct) at attached Sched. 2, pp. 1, 4; Ex. 22, pp. 4-5 ("Spread"); Tr. at 203-04 (Atkins).
[513] Ex. 21 (Atkins securitization direct) at attached Sched. 2, pp. 1, 4; Ex. 22, pp. 4-5 (weighted average "Coupon (mid)"); Tr. at 194-95 (Atkins). 5.291% - 4.915% = 0.376%; 5.278% -4.933% = 0.345%.
[514] *See, e.g.*, Ex. 20 (Reed securitization direct) at 21 and attached Ex. JRR-1, p. 1; Ex. 35 (Wadler) at 5.
[515] Conversely, if the discount factor is decreased, the net present value benefits to customers decrease. No case participant suggested a lower discount factor should be used.
[516] Ex. 31 (Binz) at 22-23.
[517] Ex. 28 (Smith) at 14.
[518] For full securitization over approximately seven, ten, and fifteen years, the estimated financing costs total $289 million, $403 million, and $611 million, respectively. Ex. 8.
[519] Ex. 28 (Smith) at 16-17.

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increased financing costs, the positive net present value calculations in this case indicate that because of the time value of money, ratepayers as a whole are expected to benefit from securitization compared to another option. In my view, net present value calculations – indicative calculations discussed above and, if securitization is approved, updated calculations reflecting, among other things, coupon rates available for securitized debt when it would be issued next spring – are important considerations in determining whether utility costs should be securitized. A wholistic view of ratepayer benefits may be particularly important for a proposal like securitization with nonbypassable rates, where the interests of all customer groups are not aligned, as discussed below.

3. Intergenerational Equity

Rate regulation typically bases the allocation and timing for recovery of infrastructure and operating costs, including fuel costs, on the principle of matching benefits or cost causation with payment responsibility: the customers who benefit from, or cause, an expenditure should pay for it. By using projected costs, annual adjustments, true-ups, and charges based on energy usage, Dominion's fuel factor rates align payment responsibility closely (but not perfectly) with the customers on whose behalf fuel costs were incurred.

Fuel securitization would represent a departure from this principle in that the customers who would pay the securitized fuel costs – over the next seven or ten years, as proposed by Dominion, or a longer period, as suggested by Appalachian Voices – may not have benefitted from, or caused, such costs. New Virginia residents or businesses during the next decade might be on the hook to help pay for fuel burned to serve other customers in 2021. Dominion asserted that the Code requires future customers to pay the nonbypassable charge. In support of its legal argument, Dominion pointed to provisions of Code § 56-249.6:2 requiring a Commission financing order to, among other things, include:

> A requirement that, for so long as the deferred fuel cost bonds are outstanding and until all financing costs have been paid in full, the imposition and collection of deferred fuel cost charges authorized under a financing order shall be non-bypassable and paid *by all retail customers of [Dominion], irrespective of the generation supplier of such customer, except for an exempt retail access customer....*[520]

The statute defines "[d]eferred fuel cost charge" as:

> the nonbypassable charges authorized by the Commission to repay, finance, or refinance deferred fuel costs and financing costs (i) imposed on and part of all retail customer bills, except those of exempt retail access customers; (ii) collected by [Dominion] or its successor or assignees, or a collection agent, in full, separate and apart from [Dominion]'s base rates; and (iii) paid *by all retail customers of [Dominion], irrespective of the generation supplier of such customer, except for an exempt retail access customer.*[521]

[520] Code § 56-249.6:2 A 2 b (4) (emphasis added).
[521] Code § 56-249.6:2 O (emphasis added).

Dominion and Direct Energy both recognized that Rider CCR, which has similar nonbypassable charge language, is charged to Dominion's existing and future customers.[522]

However, Direct Energy argued that Code § 56-249.6:2 neither authorizes nor mandates that future customers pay the nonbypassable charges.[523] Direct Energy observed that the law does not mention "future customers."[524] Direct Energy witness Lacey also suggested that the statutory phrase "all retail customers" could be read as "all current retail customers."[525] In support of a categorical exclusion for future customers, Direct Energy witness Lacey added the following opinion:

> It is not equitable, nor is it good public policy, to ask a new electricity customer to pay for electricity consumed by another customer or group of customers in a prior period, perhaps as long as ten years in the past. Put another way, not collecting securitization costs from future customers is consistent with cost causation principles as it appropriately recognizes that there is no causal nexus between the past service and future customers, and properly allocated the prior costs and benefits among customers that received the service. New customers will have received no value or benefit of any type for the funds that Dominion seeks to have them pay.[526]

Mr. Lacey also struggled to reconcile the statutory partial exemption with nonbypassable charges being applicable to future customers, testifying as follows:

> I can't imagine a condition where the legislature would say we'll let you -- if you only partially contributed, we'll let you only partially pay. But if you never contributed at all, you have to pay everything. That just doesn't make sense.[527]

Calpine endorsed Direct Energy's recommendation to exclude future customers from the nonbypassable charge.[528]

Dominion witness Atkins testified that without a nonbypassable charge that has limited exemptions, securitization bonds would not achieve the AAA rating, in his opinion.[529] Dominion witness Reed indicated that the nonbypassable nature of a securitization charge is important to

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[522] Tr. at 265 (Lacey); Tr. at 465-66 (Reid). *See Code* § 10.1-1402.03 H ("any such costs shall be allocated to all customers of the utility in the Commonwealth as a non-bypassable charge, irrespective of the generation supplier of any such customer"). Mr. Lacey acknowledged that because the fuel factor includes a prior period factor new customers pay for under-recovery balances incurred prior to joining the system. However, he added that because a prior period factor can be negative some new customers would overpay and some would underpay, whereas a nonbypassable charge could require only overpayments from new customers. Tr. at 255-56 (Lacey).
[523] Tr. at 486 (Wallace).
[524] Ex. 30 (Lacey) at 12-13; Tr. at 483-86 (Wallace).
[525] Tr. at 262 (Lacey).
[526] Ex. 30 (Lacey) at 14.
[527] Tr. at 249 (Lacey).
[528] Tr. at 44-46 (Howell).
[529] Tr. at 210-11 (Atkins).

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bondholders because it ensures debt service payments would not be impaired, or need large true-up adjustments, from customers leaving the system.[530]

In my view, intergenerational equity associated with securitization is a key evidentiary consideration for the Commission to weigh when determining whether to approve securitization in this case. However, I am not persuaded that the Commission could use intergenerational equity to determine which Dominion customers would pay the nonbypassable charge if securitization is approved. Based on the plain language of the Code, the General Assembly appears to have already decided "who pays." As emphasized above, the Code directs that the nonbypassable charge must be paid "by all retail customers of [Dominion]."[531] The General Assembly specified only two groups of customers that are either exempted[532] or may opt out from paying such charges.[533] Future customers are not one of these groups carved out by the General Assembly. Accordingly, based on my reading of the Code, future Dominion customers may not bypass the nonbypassable charge.

Moving to the Commission's weighing of impacts to new customers, handing down cost responsibility through securitization raises fairness concerns – intergenerational equity – that many participants, including Dominion, offered for the Commission's consideration. Below are a few examples of such testimony.

Dominion witness Reed testified that:

> Regulators should also consider the equitable allocation of the benefits of securitization. Regulators must balance the competing objectives of near-term customer benefits versus intergenerational equity in terms of cost responsibility over the longer term.[534]

VEPGA believes securitization is unfair in several ways, two of which VEPGA witness Lord discussed as follows:

> First, customers who never caused the fuel under-recovery will have to pay the extra under-recovery charge. This is true for all new customers who were not on the Dominion system when the under-recovery charges were incurred. Second, customers who did cause the fuel under-recovery balance may escape having to pay for it if they leave the system during the lengthy time frame the securitization charge will be in place.[535]

Direct Energy witness Lacey offered the following opinion:

> The collection of securitization costs from future customers is adverse to the public interest. Dominion has taken on a significant amount of debt, the benefit

[530] Tr. at 187-88 (Reed).
[531] Code §§ 56-249.6:2 A 2 b (4), 56-249.6:2 O (definition of "Deferred fuel cost charge").
[532] Code § 56-249.6:2 O (definition of "Exempt retail access customer").
[533] 2023 Va. Acts chs. 757, 775, Enactment Clause 4.
[534] Ex. 20 (Reed securitization direct) at 13.
[535] Ex. 29 (Lord) at 6. *See also* Tr. at 61-62, 513-14 (Quinan).

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> of which accrued directly to Dominion's customers who purchased electricity supply from Dominion during the deferral period at costs that were below the cost that Dominion incurred to provide that electricity. ... It is not equitable, nor is it good public policy, to ask a new electricity customer to pay for electricity consumed by another customer or group of customers in a prior period, perhaps as long as ten years in the past. ... New customers will have received no value or benefit of any type for the funds that Dominion seeks to have them pay.[536]

Staff presented its alternative 31-month fuel factor recovery option, which Staff indicated would better balance customer bill impacts and any intergenerational equity concerns.[537] Similarly, VEPGA witness Lord indicated that intergenerational effects could be moderated by spreading the deferred fuel costs over two or three years, which he recognized has been the historical practice for jurisdictional customers.[538]

There is little, if any, dispute about the relevant ratemaking principles, or that they are not applied in an absolute manner. Ratemaking does not perfectly match cost causation and cost recovery.[539] However, extended cost recovery for a sunk cost like fuel – whether through a mitigated fuel factor recovery, like Dominion proposed and the Commission approved last year, or through securitization – can amplify such disconnections. Case participants have assigned different weights to the intergenerational equity that securitization would cause. But there is no question that the longer the recovery period and the larger the amount in question, the greater the disconnect in cost responsibility and the greater the intergenerational equity concerns.[540]

4. Legal Options for Recovery

In comparing fuel factor recovery to securitization of the deferred fuel costs, Dominion argued that Code § 56-249.6 requires a fuel factor adjustment for any over-recovery or under-recovery balance to be recovered during the succeeding 12-month fuel period, unless the Company voluntarily agrees otherwise.[541] Appalachian Voices characterized this argument as a "false binary," because the securitization legislation did not limit the Commission's authority to consider mitigated fuel factor recovery, such as the three-year recovery approved by the *2022 Fuel Order*.[542] Staff argued that "if there's nothing in [Code §] 56-249.6 that mandates recovery of prudently incurred fuel costs over exactly 12 months, and as there's nothing in Section 56-249.6:2 that removes the Commission's ability to approve a mitigation plan, the Commission has the discretion to set the recovery period it believes best balances prompt recovery, with minimizing abrupt changes to customers."[543] VEPGA agreed with Staff and Appalachian Voices, and recognized the Commission's broad regulatory authority.[544]

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[536] Ex. 30 (Lacey) at 14.
[537] Ex. 38 (Myers) at 15.
[538] Ex. 29 (Lord) at 5.
[539] *See, e.g.*, Tr. at 365 (Myers); Tr. at 514 (Quinan).
[540] *See, e.g.*, Ex. 50 (Reed rebuttal) at 10; Tr. at 328-29 (Myers); Tr. at 476 (Holmes).
[541] *See, e.g.*, Ex. 45 (Gaskill rebuttal) at 4.
[542] Tr. at 38-39 (Holmes).
[543] Tr. at 532-33 (Clowers).
[544] Tr. at 63-65 (Quinan) (citing, among other things, *Piedmont Environmental Council v. State Corporation Commission*, 278 Va. 553 (2009) and Code § 56-[35]).

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In support of Dominion's argument that Code § 56-249.6 limits the recovery period for any deferred fuel balance, the Company emphasized the following language from Code § 56-249.6 C:[545]

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

Dominion argued that "such periods" refers to the next twelve-month period that a projected current period factor covers.[546] Dominion argued further that without a temporal component for the adjustments referenced in the last clause shown above, there would be no limiting language and the Commission could extend recovery of a deferred fuel balance out 25 years, for example.[547]

In contrast, Appalachian Voices, VEPGA, and Staff asserted that, among other things, the statutory phrase "determined by the Commission to be appropriate for such periods," shown in the block quote above, supports their argument of broader Commission authority.[548] Appalachian Voices and Staff also asserted that no statutory language precludes Commission approval of a recovery period longer than 12 months.[549]

I do not see how the above language prohibits a recovery period longer than one year for a deferred fuel balance adjustment. The requirement for an annual submission ("shall submit annually ... for successive 12-month periods") and Commission approval was a policy decision that took away the Commission's authority, for example, to allow monthly fuel rate filings and automatic adjustments, as the Commission authorized prior to the enactment of Code § 56-249.6.[550] Tying the first of such annual submissions to July 1, 2007, appears to simply reflect the fact that the General Assembly had previously frozen Dominion's fuel factor until that date.[551]

This leaves the statutory language emphasized in the last two lines of the statute shown above. I agree with Dominion that "such periods" refers to annual periods that the current period

[545] Ex. 45 (Gaskill rebuttal) at 3-4.
[546] Tr. at 545, 47 (Reid).
[547] Tr. at 549-50 (Reid).
[548] Tr. at 40, 473 (Holmes); Tr. at 62-63 (Quinan); Tr. at 77 (Ochsenhirt).
[549] Tr. at 40, 474 (Holmes); Tr. at 81 (Ochsenhirt).
[550] *See, e.g., Commonwealth of Virginia, ex rel. State Corporation Commission, Ex Parte, in re: Investigation of the Fuel Adjustment Clauses of Appalachian Power Company, Delmarva Power and Light Company of Virginia, Potomac Edison Company, Potomac Electric Power Company, Virginia Electric and Power Company*, Case No. 19526, 1977 S.C.C. Ann. Rep. 99, 106, Order (Jan. 19, 1977).
[551] 2004 S.C.C. Ann. Rep. ch. 827 (freezing Dominion's fuel factor until the earlier of: (a) July 1, 2007, or (b) the termination of capped rates pursuant to electric utility restructuring).

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factor must cover. But the remaining language, which is separated from "such periods" by a comma, does not appear to similarly limit adjustments for any over-recovery or under-recovery of fuel costs previously incurred. This language ensures customers ultimately pay, and Dominion recovers, actual (not projected) fuel costs, but does not expressly require an under-recovery balance to be recovered all in one year, as Dominion argues.

Next, Dominion indicated that the language in Code § 56-249.6 C immediately following the statutory language in the block quote above confirms that the General Assembly knows how to direct fuel expense beyond one year.[552]

> [H]owever, (i) no such adjustment for any over-recovery or under-recovery of fuel costs previously incurred shall be made for any period prior to July 1, 2007, and (ii) the Commission shall order that the deferral portion, if any, of the total increase in fuel tariffs for all classes as determined by the Commission to be appropriate for the 12-month period beginning July 1, 2007, above the fuel tariffs previously existing, shall be deferred without interest and recovered from all classes of customers as follows: (i) in the 12-month period beginning July 1, 2008, that part of the deferral portion of the increase in fuel tariffs that the Commission determines would increase the total rates of the residential class of customers of the utility by four percent over the level of such total rates in existence on June 30, 2008, shall be recovered; (ii) in the 12-month period beginning July 1, 2009, that part of the balance of the deferral portion of the increase in fuel tariffs, if any, that the Commission determines would increase the total rates of the residential class of customers of the utility by four percent over the level of such total rates in existence on June 30, 2009, shall be recovered; and (iii) in the 12-month period beginning July 1, 2010, the entire balance of the deferral portion of the increase in fuel tariffs, if any, shall be recovered.[553]

This language prescribes a multi-year recovery period for a deferred fuel balance incurred more than 15 years ago. Clearly, the General Assembly knows how to direct a multi-year recovery of fuel factor recovery and chose not to do so in 2023.[554] But this does not lead me to infer that the Commission must be prohibited from an extended recovery period because such language otherwise would have been unnecessary. The General Assembly regularly directs the Commission to implement a particular ratemaking action or decision that otherwise would have been among the Commission's options to choose. Indeed, the 2023 legislation that authorized Dominion's securitization petition required the use of a particular return on equity in the Company's pending biennial review.[555]

Staff argued that its legal position is also supported by Code § 56-249.6 E, which states as follows:

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[552] Tr. at 551-52 (Reid).
[553] Code § 56-249.6 C.
[554] Tr. at 435-36 (Gaskill).
[555] 2023 Va. Acts chs. 757, 775, Enactment Clause 2. It is also unclear how much interpretive weight could be assigned to the fact that the General Assembly chose not to specify the recovery period for a deferred fuel balance that was in part unknown at that time and in part already subject to multi-year recovery specified by the *2022 Fuel Order*.

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> The Commission is authorized to promulgate, in accordance with the provisions of this section, all rules and regulations necessary to allow the recovery by electric utilities of all of their prudently incurred fuel costs under subsections A and C, including the cost of purchased power, as precisely and promptly as possible, with no over-recovery or under-recovery, except as provided in subsection C, in a manner that will tend to assure public confidence and minimize abrupt changes in charges to consumers.

Staff argued that Code § 56-249.6 E would be rendered meaningless if the Commission could not craft a recovery period that balances prompt recovery with minimizing abrupt changes to customers.[556] Appalachian Voices argued that Code § 56-249.6 E provides the only limits on the Commission's authority in this statute – the Commission must assure that recovery is precise and prompt, while also minimizing abrupt changes to customer rates.[557] But Dominion argued that the phrase "in accordance with the provisions of this section," means the Commission cannot establish a rule under this authority that is contrary to the provisions of this statute.[558] Dominion also suggested that the word "prompt" might not be a limiting factor if the Commission has the discretion to determine what is prompt.[559]

If the Commission's rulemaking authority is relevant to this ratemaking proceeding, I agree with Dominion that the Commission could not promulgate a rule under Code § 56-249.6 E that is inconsistent with the other provisions of the statute. However, as discussed above, the plain language of the Code does not expressly limit the Commission's authority for deferred fuel adjustments to a 12-month recovery period, in my opinion. I also question what fuel factor rule could "minimize abrupt changes in charges to consumers" if, as Dominion argues, the other provisions of the statute require a twelve-month recovery period for any over- or under-recovery. Minimizing a rate change invariably requires lowering the amount to be recovered – which cannot be done with dollar-for-dollar recovery of a specified category of costs – and/or extending the time frame for recovery. Accordingly, Dominion's legal position could render the minimization language in Code § 56-249.6 E surplusage, a result that statutory construction tries to avoid.[560]

In support of its argument, Dominion also pointed to the fact that the Commission has only extended the recovery period for under-recovery balances beyond 12 months in situations where the public utility has voluntarily agreed to such treatment. Staff recognized this historical fact, but countered that the Commission could only approve such agreements if it has the authority to direct the stipulated relief.[561] I am aware of no Commission order indicating that Dominion is entitled to dollar-for-dollar recovery of a deferred fuel balance over one year or the Company's preferred period of time. Accordingly, it is unclear to me whether the historical practice of one-year recovery of an under-recovery balance absent a voluntary agreement by a

[556] Tr. at 77-78 (Ochsenhirt).
[557] Tr. at 474 (Holmes).
[558] Tr. at 546 (Reid).
[559] Tr. at 550 (Reid).
[560] *See, e.g., Cook v. Commonwealth*, 268 Va. 111, 114 (2004).
[561] Tr. at 79 (Ochsenhirt).

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public utility – history that no case participant disputed – has been implemented as a matter of law or discretion.[562]

In sum, Dominion is entitled to dollar-for-dollar recovery of its fuel costs under Code § 56-249.6, but the temporal entitlement asserted by the Company for a prior period factor is not apparent from the plain language of the Code. Nor am I aware of any Commission decision holding that the historical practice of one-year recovery of an under-recovery balance absent a voluntary agreement by a public utility has been implemented by the Commission as a matter of law, rather than discretion. Consistent with Court precedent, I "presume that where the General Assembly has not placed an express limitation in a statutory grant of authority, it intended for the Commission, as an expert body, to exercise sound discretion."[563] Accordingly, this Report does not rule out multi-year recovery of the deferred fuel balance, such as Staff's alternative option, as an option for the Commission to consider in the instant case.

5. Loss of Commission Oversight

If the Commission approves securitization, Code § 56-249.6:2 prohibits the Commission from later taking any action that "impairs ... the value of deferred fuel cost property," "revises the deferred fuel costs for which recovery is authorized," or that would "reduce, alter, or impair deferred fuel cost charges."[564] The only exception is that the Commission must allow formulaic changes to the nonbypassable rate.[565]

Based on these and other provisions of Code § 56-249.6:2, the Commission must accept very limited oversight of the nonbypassable rates if securitization is approved. The Commission also could not adjust the securitized balance in a way that would affect the nonbypassable rates, as such rates are only subject to revision through formulaic true-ups. The record indicates that such legal and structural protections for bondholders are necessary to achieve the AAA rating that is fundamental to utility securitization bonds.

Less clear is whether the statute prohibits any and all further regulatory review of Dominion's fuel factor costs and recoveries prior to July 1, 2023, if securitization occurs.[566]

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[562] Staff also introduced into the record prefiled testimony by Dominion from the 2022 Fuel Case, which included the following statement:

> "[I]n the event higher fuel costs continue over an extended period of time, the Commission and the Company will have the flexibility to offer further mitigation proposals in the future or vice versa if commodity prices improve." Ex. 48 at 2-3.

Dominion, in the instant case, indicated that this prior statement referred to an arrangement comparable to last year wherein Dominion proposed, and the Commission approved, multi-year recovery of a deferred fuel balance. Tr. at 437 (Gaskill). I struggle to reconcile that explanation with the "vice versa" language shown above because, if this phrase is simply describing an arrangement like last year, it would suggest that even if commodity prices improve – a factual predicate for lowering fuel factor rates under Code § 56-249.6 – the Commission would not have the authority to lower fuel factor rates without Dominion's agreement.

[563] *City of Alexandria v. State Corp. Comm'n*, 296 Va. 79, 94 (2018) (citing *Virginia Elec. & Power Co. v. State Corp. Comm'n*, 284 Va. at 741 (2012)).

[564] Code § 56-249.6:2 J 1 b, d.

[565] Code § 56-249.6:2 A 2 d, J 1 d.

[566] No participant in this case alleged that Dominion has imprudently incurred any of the fuel costs that comprise the deferred fuel balance or that there have been any accounting irregularities.

The Commission's fuel factor orders typically make no finding that is final, leaving fuel issues open for several years to ensure that only prudently incurred and properly booked costs are recovered.[567] Before a fuel year is "closed out" by the Commission, Staff conducts an audit. Any necessary adjustments identified prior to close out, which can benefit a utility and/or customers, can be incorporated in fuel factor rates pursuant to Code § 56-249.6.

It is questionable whether Staff would have the authority to conduct its traditional audit for any costs prior to June 30, 2023, if securitization is approved. This issue implicates fuel factor costs and recoveries booked by Dominion for the period July 1, 2017, through June 30, 2023, since the Commission has closed out fuel cost recoveries only through June 30, 2017, for Dominion.[568] However, Staff confirmed it would audit such costs if directed by the Commission.[569] Dominion provided its view that a prudence review or the Staff's ability to audit July 1, 2017, through June 30, 2023 costs should not be impacted by securitization and encouraged the Commission to exercise such authority.[570]

Whether the Commission could audit these historic costs if securitization occurs and potentially make adjustments that impact Dominion and ratepayers (but not bondholders) could turn on the meaning of "the deferred fuel costs for which recovery is authorized" that Code § 56-249.6:2 prohibits the Commission from revising.[571] In my view, this language could be read to support Dominion's position. Since the deferred fuel balance that bondholders would recover, with interest, would not be impacted by any future fuel factor revision resulting from a Staff audit, such action may not constitute a prohibited "revis[ion] [of] the deferred fuel costs for which recovery is authorized" through nonbypassable rates.

6. Cash Flow

If approved and implemented, securitization would provide the Company with a lump sum recovery of the securitized balance at the time of the bond issuance, which is expected next spring. Compared to any fuel factor recovery option, Dominion would recover its costs earlier and independent of electricity sales levels.[572]

While Dominion indicated that the cash flow benefit from securitization is not significant

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[567] Commission fuel factor orders often include reminders of the continuing nature of fuel factor approval and that no finding in such orders is final. *See, e.g., Application of Appalachian Power Company, To revise its fuel factor*, Case No. PUR-2018-00153, 2019 S.C.C. Ann. Rep. 273, 274, Order Establishing 2018-2019 Fuel Factor (Mar. 25, 2019) ("As also explained in prior fuel cases, approval of a fuel factor herein does not represent ultimate approval of the Company's actual fuel expenses. An audit and investigation of the Company's actual booked fuel expenses, among other things, is conducted by the Staff after the close of the Fuel Year. The Commission subsequently determines what are, in fact, reasonable, prudent and, therefore, allowable fuel expenses and credits, as well as the Company's recovery position as of the end of the audit period.").

[568] *Commonwealth of Virginia, ex rel. State Corporation Commission, In the matter concerning certain fuel factor cases of Virginia Electric and Power Company*, Case Nos. PUE-2011-00045, PUE-2012-00050, PUE-2013-00042, PUE-2013-00042, PUE-2014-00033, PUE-2015-00022, PUE-2016-00047, Order Closing Fuel Cases (July 9, 2021); Tr. at 376-77 (Myers).

[569] *See, e.g.,* Tr. at 375, 381 (Myers).

[570] Tr. at 379-81 (Reid).

[571] Code § 56-249.6:2 J 1 b.

[572] Ex. 38 (Myers) at 20.

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compared to status quo fuel factor recovery,[573] the Company pushed back on the possibility of Staff's alternative option or another voluntary mitigation plan, asserting, among other things, that:

> [T]he Company is simultaneously committing billions of dollars to capital investments on behalf of its customers over the next several years in new transmission, distribution, and renewable generation required to serve substantial load growth, maintain reliability, and to meet the objectives of the Commonwealth such as those requirements in the Virginia Clean Economy Act. These are in addition to the normal, day-to-day costs necessary to operate the utility and meet customer needs in a reliable and effective manner.
>
> [D]ue to the combination of the significant deferral balance, which includes the impact of the current voluntary mitigation plan, along with the ongoing capital requirements of the Company, a further voluntary plan for internal financing of the deferral balance is not an option that the Company believes would be in the best interests of its customers.[574]

The lump sum injection that securitization would provide could be reinvested by the Company.[575]

B. Recommendation on Securitization

As recognized by Consumer Counsel, the deferred fuel costs represent approximately $1.3 billion of costs that must be paid – one way or the other – by customers.[576]

Dominion recommended securitization with bond tenors of approximately ten years, unless the Commission favors a shorter tenor such as the seven-year option presented in the Company's Petition. Appalachian Voices opposed securitization and recommended that the Commission direct Dominion to analyze the net present value and rate impacts of a five-year fuel factor recovery of the deferred fuel balance.[577] The Committee recommended securitization, asserting that the bill impact numbers "speak for themselves," but would not oppose Staff's alternative fuel factor option.[578] The Coalition does not oppose securitization,[579] although, as discussed below, it seeks a broader exemption from the nonbypassable charge. VEPGA recommended rejection of securitization, primarily due to intergenerational equity.[580] VPLC recommended Staff's alternative fuel option,[581] and opposed securitization due in part to its uncertainty, risk, and financing costs.[582] Recognizing "there are no good options for customers"

[573] *Id.* at Appendix C, p. 97.
[574] Ex. 45 (Gaskill rebuttal) at 7-8.
[575] *See, e.g.*, Ex. 38 (Myers) at 7; Ex. 28 (Smith) at 11.
[576] Tr. at 71 (Browder).
[577] Tr. at 477-78 (Holmes).
[578] *See, e.g.*, Tr. at 54, 56, 509 (Coburn).
[579] Tr. at 507 (Page).
[580] Tr. at 513-16 (Quinan).
[581] Tr. at 68-69 (Reisinger).
[582] Tr. at 519-22 (Reisinger).

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given the magnitude of the deferred fuel balance,[583] Consumer Counsel represented that, as a policy matter, the Office of the Attorney General does not oppose the Company's securitization proposal to avoid near-term rate increases.[584] Staff had no preference regarding the recovery options.[585] Neither Consumer Counsel nor Staff recommend a bond tenor longer than ten years if securitization is approved.[586]

The record establishes that Dominion would benefit from securitization. A lump sum payment next spring covering deferred fuel costs that the Company has been carrying on its books would provide Dominion with a cash injection sooner than fuel factor recovery provides.

From a ratepayer perspective, securitization is more of a mixed bag, as discussed above. The extended cost recovery period of securitization would result in lower bill impacts, but would change the affected ratepayers. The longer the payment period, the higher the estimated net present value benefit to customers as a whole, but the farther Dominion's rates get from the important cost of service goal of attempting to assign and allocate costs to the customers who incurred them. I view the near-term bill impact benefits as material, regardless of whether Dominion's "status quo" or Staff's alternative fuel factor option is the baseline for comparison. But there is undoubtedly a tradeoff between such near-term customer benefits and equity in cost responsibility.[587]

Based on my weighing of the evidence, I recommend that the Commission authorize Dominion to securitize the full deferred fuel balance[588] using bonds with a tenor of up to approximately ten years, provided securitization will have a positive net present value for customers. I am aware of no rule of statutory construction that gives legal weight to what an enacted bill may have been called colloquially by legislators and/or stakeholders in the legislative process.[589] However, the need of Dominion's existing retail customers for rate relief is supported by the record and warranted, in my opinion. Ratepayers today are being asked to shoulder a significant amount of infrastructure investment made during a period of persistent inflation. While Dominion's significant infrastructure expenditures have not contributed to the deferred fuel balance, they undoubtedly affect the ability of customers to absorb a significant fuel factor increase at this time. To the extent securitization offers a limited opportunity for rate relief,[590] it warrants Commission authorization if it can be implemented in a manner that benefits Dominion's customers.

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[583] Tr. at 524-25 (Browder).
[584] Tr. at 72-73 (Browder).
[585] Tr. at 79 (Ochsenhirt).
[586] Tr. at 526 (Browder); Tr. at 328-29 (Myers).
[587] *See, e.g.*, Ex. 20 (Reed securitization direct) at 13.
[588] While case participants recognized that securitization of the full deferred fuel balance would negate the stipulation approved by the *2022 Fuel Order*, no one has argued the inclusion of the subject amounts would be unlawful. *See, e.g.*, Tr. at 535-36 (Clowers); Tr. at 564-65 (Reid). Code § 56-249.6:2 appears to authorize Dominion to request inclusion of the full deferred fuel balance. *See, e.g.*, Code § 56-249.6:2 A 1, O.
[589] Nor is it clear how such a rule could work, given our country's rich history of using competing policy labels as one expression of advocacy.
[590] Dominion may only file a securitization petition on or before July 1, 2024. Code § 56-249.6:2 A.

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Against this backdrop, the record indicates that securitization would extend the rate relief provided by interim fuel rates through this winter and then result in a bill impact lower than the fuel factor recovery options that were the focus of this proceeding, as shown in Attachment 1 to this Report. Given intergenerational equity among customers and the present interest rate uncertainty for bonds that would not be issued until next spring, I recommend Commission authorization be conditioned on Dominion certifying quantifiable customer benefits from securitization, measured not only by lower bill impacts but also by a positive net present value compared to Staff's alternative option (which, as discussed below, I view as the second best option in this case).[591] As part of Dominion's post-order process, such a certification can incorporate the actual coupon rates that would be achieved through securitization, as discussed in Section I.C.1 below. In my view, the public interest supports ensuring that customers as a whole would benefit from securitization and would not be harmed if, for example, interest rates continue to rise during the next several months.

However, depending on how the Commission weighs the evidence, the record could also support denial of securitization. For example, if the Commission assigns more weight to intergenerational equity and/or less weight to near-term bill impacts, securitization could be in the public interest. If the Commission denies securitization, I recommend approval of Staff's alternative option. The rate increase under this fuel factor option would be far less than Dominion's "status quo" fuel factor option, with the additional twelve-month recovery period resulting in only a modest incremental intergenerational impact. I do not recommend analysis, or further consideration of, a five-year fuel factor recovery of the deferred fuel balance, as suggested by Appalachian Voices. If, as Staff witness Myers indicated, Dominion's financing costs for deferred fuel balances are the Company's weighted average cost of capital,[592] it would be more prudent to pursue securitization at a favorable debt cost, than to pursue fuel factor recovery over five years, in my view.

If the Commission approves securitization, Section I.C below provides recommendations associated with that potential outcome, including the net present value condition recommended herein.

C. Recommendations if Securitization (Full or Partial) is Approved

1. Positive Net Present Value

Appalachian Voices argued that under Code § 56-249.6:2 the Commission, in effect, "must make sure that the benefits to ratepayers outweigh the potential costs."[593] Appalachian Voices shared its view that the short-term rate benefits and long-term intergenerational equity from securitization balance out, leaving net present value analysis to "tip[] the scales."[594]

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[591] Notably, even if securitization is approved, the Commission might nonetheless need to exercise its authority under Code § 56-249.6 in the event that Dominion exercises its statutory discretion to not cause the bonds to be issued. Code § 56-249.6:2 A 2 e, B 2. Without multi-year recovery, that scenario could result in even larger bill impacts than those compared in this Report. Ex. 8.

[592] Tr. at 333 (Myers).

[593] Tr. at 34 (Holmes).

[594] Tr. at 476 (Holmes).

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VPLC, among others, recognized that the potential for interest rates to increase presents a risk to ratepayers.[595]

To deal with the fact that the bond structure and pricing would be unknown at the time of a Commission financing order, Dominion proposed the issuance advice letter process. Dominion would update a form letter included with the Petition with the final pricing terms, updated estimates of financing costs (upfront and ongoing), and certifications from Dominion to demonstrate that the bond issuance satisfies the standards of the financing order.[596] With respect to customer benefits, as proposed, Dominion would certify that the nonbypassable charges would provide "quantifiable benefits to customers of Dominion[] as compared to the costs that would have been incurred absent the issuance of the Deferred Fuel Cost Bonds..."[597] Dominion views this provision as encompassing bill impacts, but not necessarily net present value.[598]

As discussed above, in my view, the public interest supports ensuring that customers as a collective whole would benefit from securitization. A Company certification of positive net present value analysis compared to Staff's alternative option would provide such assurance. Such analysis, which could be conducted as part of the issuance advice letter process, should incorporate Staff's cash flow rendering, updated coupon rates to reflect the actual pricing of securitized debt, and an updated cost of capital to reflect any changes in the Company's cost of debt and capitalization.[599] While I do not recommend using a discount rate different than the Company's weighted average cost of capital, I note this appears to be a conservative assumption used by both Dominion and Staff. The record could also support using a higher discount rate, which would show higher net present value benefits to customers.[600]

2. Customers That Shopped During July 1, 2020, through June 30, 2023

Dominion and the Coalition offered competing interpretations of the language emphasized below from Code § 56-249.6:2.[601]

> "Exempt retail access customer" means a retail *customer of [Dominion] that, pursuant to the provisions of § 56-577 or 56-577.1*, purchased electric energy exclusively from a supplier of electric energy licensed to sell retail electric energy exclusively within the Commonwealth other than [Dominion], or that purchased electric energy from [Dominion] pursuant to a Commission-approved

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[595] Tr. at 67-68 (Reisinger).

[596] Ex. 19 (D. Johnson securitization direct) at 15. *See* Ex. 4 (Petition) at Appendix B (form of issuance advice letter), Appendix C (form of standard true-up adjustment letter).

[597] Ex. 4 (Petition) at Appendix B, Attachment 5. Dominion would also certify, among other things, "that the structuring, pricing and financing costs of the Deferred Fuel Cost Bonds are reasonably expected to result in reasonable deferred fuel cost charges consistent with market conditions at the time the Deferred Fuel Cost Bonds are priced and the terms set forth in the Financing Order." *Id.* This language confirms Dominion's stated intent, if securitization is approved, to move forward with the bond issuance if the coupon rates are favorable to other market rates at that time. Tr. at 166 (D. Johnson).

[598] Tr. at 409-10 (D. Johnson).

[599] The weighted average cost of capital is used in the revenue requirement calculations and as the discount rate.

[600] *See, e.g.*, Ex. 31 (Binz) at 22-23.

[601] Direct Energy endorsed the Coalition's position. Tr. at 484 (Wallace).

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market-based tariff, during the period when the deferred fuel costs to be financed were incurred.[602]

Dominion interprets "customer" in this provision to mean each facility with a metered account on a non-contiguous site, based in part on the following language from Code § 56-577 A 3 b:

> For purposes of this section, each noncontiguous site will nevertheless constitute an individual retail customer even though one or more such sites may be under common ownership of a single person.[603]

However, the Coalition argued that a "customer" in the emphasized language is broader and includes any and all existing and future accounts of a single company that accessed the market during the relevant prior periods pursuant to Code § 56-577. The Coalition argued that Dominion's interpretation substitutes the word "meter" or "account" for "customer"[604] and pointed to instances where other utility legislation that used the words "meter" or "metered accounts."[605] The Coalition also identified the following definition from Code § 56-576:

> A retail customer means any person that purchases retail electric energy for its own consumption at one or more metering points or nonmetered points of delivery located in the Commonwealth.[606]

Dominion indicated that the broader definition of Code § 56-576 undermines the Coalition's argument because the narrower definition of Code § 56-577 is what applies to an exempt retail access customer under Code § 56-249.6:2.[607]

I find Dominion's argument persuasive. The plain language of Code § 56-577 A 3 b expressly treats each facility on a non-contiguous site as an individual customer, regardless of whether those facilities are owned by the same person or company. In other words, if Amazon has three data centers spread across three counties, those would be three potential retail access customers under Code § 56-577. By referencing Code § 56-577, Code § 56-249.6:2 incorporates the same understanding of "customer," and not a broader definition like the one in Code § 56-576. With by-right shopping under Code § 56-577 A 3 and by-right exemption under Code § 56-249.6:2, a retail access customer and an exempt retail access customer, respectively, are defined by geography, not ownership.

I reached the same conclusion for the aggregation of customer accounts to shop under Code § 56-577 A 4 or the related aggregation pilot provisions of § 56-577.1. These statutory provisions would have been unnecessary if these accounts already qualified as one larger customer because such accounts would collectively have a right to shop under Code

[602] Code § 56-249.6:2 O (emphasis added).
[603] *See* Ex. 47.
[604] Tr. at 491 (Page).
[605] Tr. at 498 (Page) (citing, among other things, Code § 56-264.3).
[606] Tr. at 504 (Page).
[607] Tr. at 568 (Reid).

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§ 56-577 A 3 without any aggregation.[608] Those accounts/customers are aggregated[609] so that their load is counted as if they were one customer.[610] But the group of aggregation customers that shopped during July 1, 2020, through June 30, 2023, is not a flexible concept that includes future (or existing) accounts that did not actually access the market then. Those aggregation customers are specific accounts that were identified in aggregation petitions and actually shopped during those three years. All other accounts that were not aggregated into a shopping "customer" for purposes of Code § 56-577 A 4 or 56-577.1 cannot bypass the nonbypassable charge. New accounts would be new customers under the law that, as a factual matter, did not shop during the relevant period.

3. Call Provision Allowing Refinancing

Code § 56-249.6:2 A 3 states as follows:

> At the request of an electric utility, the Commission may commence a proceeding and issue a subsequent financing order that provides for refinancing, retiring, or refunding deferred fuel cost bonds issued pursuant to the original financing order if the Commission finds that the subsequent financing order satisfies all of the criteria specified in this section for a financing order.

Appalachian Voices recognized that Dominion's proposal includes no provision that would allow the special purpose entity to refinance securitized debt in the future.[611] Appalachian Voices recommended that the Commission require Dominion to model the effect of including a call provision in the proposed securitization to determine whether the potential to refinance at lower interest rates could offset the costs of a call provision and ultimately provide substantial savings to customers.[612] Appalachian Voices recognized that callable notes might be harder to market, might carry a higher coupon rate, and might not be beneficial.[613]

Dominion did not support the inclusion of a call provision, with Company witness Reed testifying as follows:

> I would urge the Commission to not do that. I think that's -- from a public policy perspective, it makes it -- renders securitization a waste of time because, in fact, the market will negate that feature in the pricing in terms that it requires for that feature, including a make-whole provision.[614]

[608] The load of the accounts in the pilot is treated as a customer for purposes of satisfying the pilot demand requirements and reporting. Code § 56-577.1 A 3.

[609] Code § 56-577 A 4 ("Two or more individual nonresidential retail customers of electric energy within the Commonwealth, whose individual demand during the most recent calendar year did not exceed five megawatts, may petition the Commission....").

[610] Code §§ 56-577 A 4 b, 56-577.1 A 3.

[611] Ex. 31 (Binz) at 16-17 (quoting Code § 56-249.6:2 A 3).

[612] *See, e.g.*, Tr. at 37 (Holmes).

[613] Tr. at 37, 478 (Holmes).

[614] Tr. at 179 (Reed).

Company witness Atkins testified that only one of 95 utility securitizations has included a call provision and confirmed that transaction included a make-whole provision for bondholders.[615]

Based on the record, I do not recommend directing Dominion to model a call provision that the Company indicated will result in higher coupon rates and a make-whole provision for bondholders.

4. Affiliates Act Exemption

Dominion's creation of an affiliated special purpose entity with bankruptcy-remote status is integral to securitization. Dominion would transfer (or sell) the deferred fuel cost property to the special purpose entity, which would, in turn, issue the bonds and provide Dominion with the proceeds from the issuance. Subsequently, Dominion would be the servicer for the securitized bonds. Dominion filed with its Petition various form agreements to which Dominion and the special purpose entity would be parties, including a Purchase and Sale Agreement, Servicing Agreement, and Administration Agreement.[616]

Dominion asserted that an Affiliates Act exemption pursuant to Code § 56-77 B is in the public interest because Code § 56-249.6:2 and the requirements and approvals thereunder, taken as a whole, comprehensively govern the securitization process. Due to the securitization structure, including the ring-fenced nature of the special purpose entity, Dominion indicated there is no potential for preferential treatment or cross subsidization that the Affiliates Act is intended to prevent. Dominion added that a separate Affiliates Act proceeding is unnecessary and duplicative because all relevant information and issues will be vetted in these combined proceedings.[617]

Staff did not oppose an exemption under Code § 56-77 B, for several reasons. Staff recognized: (1) the specific, prescriptive nature of Code § 56-249.6:2; (2) that the relationship between Dominion and the special purpose entity has been considered in the instant proceedings; (3) the Petition included preliminary draft agreements that are subject to change based on comments from the ratings agencies, trustee, securities intermediary, underwriters, and the respective counsel of the foregoing; and (4) continuing supervisory authority under Code § 56-80 could be challenging because the Commission's oversight after the financing order must be very limited pursuant to Code § 56-249.6:2.[618] However, Staff recommended that the Commission require the Company to include the following information in its Annual Report of Affiliate Transactions submitted each year to the Director of the Division of Utility Accounting and Finance, in Microsoft Excel format with formulas intact, for the duration of the Company's roles under the Servicing and Administration Agreements:

1. A schedule of the Deferred Fuel Cost Charges collected by Dominion and remitted to the special purpose entity, by month and by dollar amount;

[615] Tr. at 462-63 (Atkins).
[616] *See, e.g.*, Ex. 38 (Myers) at Appendix C, pp. 1-5.
[617] Petition for Exemption at 7; Tr. at 27 (Ryan).
[618] Ex. 38 (Myers) at 28-29.

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2. A schedule that quantifies the fees paid by the special purpose entity to Dominion, by type of fee, by month, by [Federal Energy Regulatory Commission ("FERC")] account where the proceeds from each fee is recorded on Dominion's books, and by dollar amount;

3. A schedule that quantifies Dominion's internal and external costs to carry out its responsibilities under the Servicing and Administration Agreements, by agreement, by type of cost, by month, by FERC account where each cost is recorded on Dominion's books, and by dollar amount; and

4. A schedule that quantifies any other charges or fees to/from Dominion from/to the special purpose entity, by type of charge, by month, by FERC account where each charge or fee is recorded on Dominion's books, and by dollar amount.[619]

Dominion did not oppose Staff's reporting recommendation.[620]

Based on the record and the Code, I agree that an exemption under Code § 56-77 B and Staff's reporting recommendations are in the public interest, if securitization is authorized.

5. Financing Order

To authorize the proposed securitization requires the Commission to enter a "financing order."[621] Dominion's Petition provides a proposed financing order, which the Company asked the Commission to enter.[622] A Staff securitization expert concluded that Dominion's proposed securitization appears to comply with the provisions of Code § 56-249.6:2, with procedural contours required to achieve the highest possible ratings from the major credit rating agencies.[623]

Based on my review, Dominion's proposed financing order includes all of the components that Code § 56-249.6:2 requires of such an order. Attachment 2 to the Hearing Examiner's Report contains limited redline recommendations for the Commission to consider if it authorizes securitization, as recommended herein, regardless of whether the Commission issues a stand-alone financing order for Case No. PUR-2023-00112 or incorporates financing order findings and directives as part of a broader order that includes both Case Nos. PUR-2023-00067 and PUR-2023-00112. Most of the redline recommendations in Attachment 2 to this Report can be characterized as updates to incorporate legal and evidentiary developments that occurred during the course of these proceedings. These redlines are not offered to suggest how the Commission will address the contested issues in this case, although updated figures or tariffs may reflect outcomes on some issues. Redlines to page 13 of the proposed financing order and its Appendix B, Attachment 5, which reflect the net present value analysis recommendation in Section I.C.1 of this Report's Analysis, are offered to illustrate the context in which this recommendation can be implemented.

[619] Ex. 38 (Myers) at 29-30.
[620] Petition for Exemption at 8.
[621] Code § 56-249.6:2 A 2 a.
[622] Ex. 4 (Petition) at 14 and attached Ex. B.
[623] *Id.* at 4.

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II. FUEL FACTOR APPLICATION

The *2022 Fuel Order* approved a current period fuel factor rate of 3.0784¢/kWh and a prior period fuel factor rate of 0.4595¢/kWh, for a total fuel factor rate of 3.5379¢/kWh.[624] In the instant fuel factor case, Dominion's Application requested that the Commission approve a current period rate of 2.8587¢/kWh and proposed that its prior period rate be suspended, pending Commission consideration of Dominion's proposed securitization of its deferred fuel costs, as discussed in Section I of this Report's Analysis.[625] If securitization is not approved, Dominion proposed a prior period fuel factor rate of 1.4716¢/kWh and a total fuel factor rate of 4.3303¢/kWh.[626] After the May Procedural Order approved Dominion's proposed interim rate, customers have paid a fuel factor rate of 2.8587¢/kWh since July 1, 2023.

Fuel Factor Rate

If the Commission approves securitization of Dominion's deferred fuel costs, the Commission should approve a prior period rate of zero. However, if the Commission denies securitization for some or all of the deferred fuel costs, the appropriate prior period rate could depend on the legal issue discussed in Section I.B.4 of this Report's Analysis above – namely, whether the Commission has the authority to extend a prior period rate beyond 12 months without the voluntary agreement of Dominion. If the Commission decides that Code § 56-249.6 limits the Commission's discretion to do so, then the Commission should approve Dominion's proposed prior period factor rate of 1.4716¢/kWh (or securitization). Alternatively, if the Commission decides that Code § 56-249.6 does not limit such Commission discretion, which is consistent with my analysis in Section I.B.4, then I recommend approval of Staff's alternative option with a prior period rate of 0.7422¢/kWh.

No case participant opposed Dominion's proposed current period rate, which has been in effect on an interim basis since July 1, 2023. This proposed rate is based on the Company's projections of fuel costs and volumes. Dominion provided evidence to support its projections[627] and no case participant contested their use in this case. Staff concluded that the Company's projected fuel expenses and the underlying assumptions are reasonable.[628] One issue affecting the current period rate, Dominion's proposed accounting change to market-based tariff revenues, warrants further discussion because it proposes a change in Commission policy. If approved, this change, which is reflected in the proposed current period rate, would lower the fuel factor rate in the instant case, although its effect in future cases would depend on the level of market-based tariff revenues.

Staff witness Myers provided the following figure to illustrate the impact of the proposed change to market-based tariff revenues.[629]

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[624] *2022 Fuel Order*, 2022 S.C.C. Ann. Rep. at 551.
[625] Ex. 2 (Application) at 6.
[626] *Id.* at 2.
[627] *See, e.g.*, Ex. 13 (W. Johnson fuel direct); Ex. 14 (Farmer fuel direct); Ex. 16 (Brookmire fuel direct).
[628] Ex. 32 (Tufaro) at 12. *See also* Ex. 33 (McBride).
[629] Ex. 38 (Myers) at 34.

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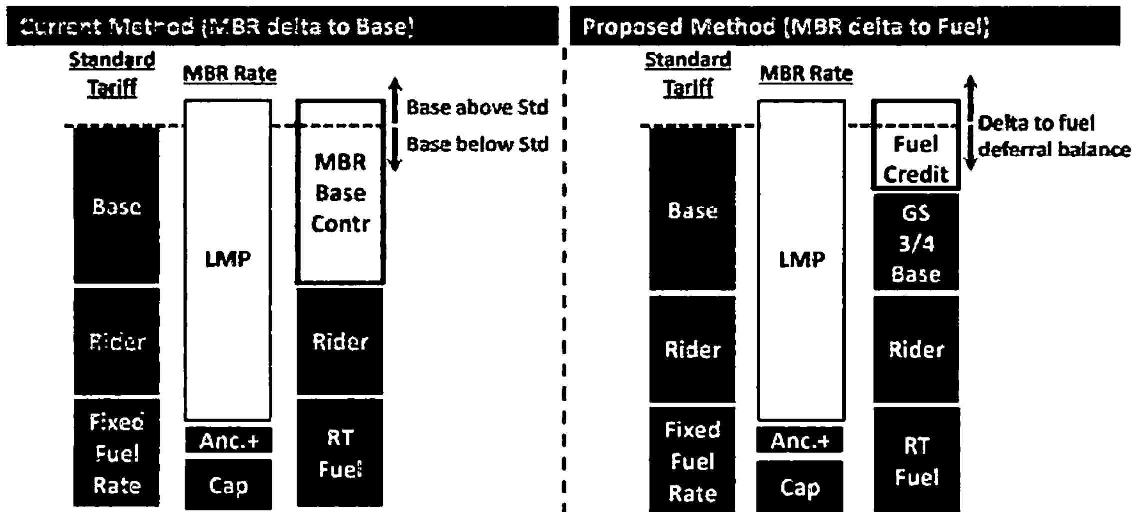

Currently, market-based generation revenues from Rate Schedule MBR and SCR Rate Schedule[630] are credited to the Company's base rates and fuel rates to fund (1) all approved generation riders and (2) the customer's share of the Company's actual monthly system fuel expense. After this occurs, any remaining revenues are allocated to base rates. As explained by Mr. Gaskill, this means that during periods of high (low) market power prices, more (less) revenue is allocated to base rates than would typically be experienced under cost-of-service rates. As proposed, the generation revenues received from these customers would fund: (1) all approved generation riders; and (2) base rates under Schedule GS-3 or GS-4. After this occurs, any remaining revenues would be allocated to fuel.[631] In other words, Dominion's proposal would move, from base rates to fuel factor rates, the difference between market-based tariff rates and standard tariff rates. This difference is referred to as the "delta" in the above figure.

Dominion and Staff agree that the proposed accounting change would provide additional stability in the fuel factor rate due to the correlation between purchased power expense and revenue from the Company's market-based rate revenues.[632] Dominion witness Gaskill indicated that in a high commodity environment like the last two years, excess market-based rate revenues (positive delta) would have offset much of the increase to purchase power and lowered the fuel deferral. In a low commodity price environment, market-based rate revenues would fall and the shortfall (negative delta) would be offset by lower purchased power expense. Due to this

[630] The Commission approved the SCR Rate Schedule to accommodate a market-based rate contract between Dominion and a data center subsidiary of Amazon. *Application of Virginia Electric and Power Company, For approval of special rates, terms and conditions pursuant to § 56-235.2 of the Code of Virginia and new rate schedules SCR – GS-3 and SCR – GS-4*, Case No. PUE-2015-00103, 2016 S.C.C. Ann. Rep. 293, Final Order (Jan. 19, 2016). The Commission approved Rate Schedule MBR as an experimental market-based rate schedule with capped enrollment available to customers with a statutory right of retail access for competitive supply. *See, e.g., Application of Virginia Electric and Power Company, For approval to modify rate schedules, designated Rate Schedule MBR, Rate Schedule MBR-GS-3, and Rate Schedule MBR-GS-4, pursuant to § 56-234 B of the Code of Virginia*, Case No. PUR-2020-00272, 2021 S.C.C. Ann. Rep. 347, Final Order (May 18, 2021) (increasing the cap to 400 MW and maintaining pilot status).

[631] Ex. 5 (Gaskill fuel direct) at 11-13.

[632] Ex. 38 (Myers) at 35-36.

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correlation, he indicated the proposed accounting change would function as a "nearly perfect, natural hedge against purchased power expense."[633]

As recognized by Staff, the proposed fuel factor treatment would mean customers will receive any excess or pay for any shortfall on a dollar-for-dollar basis, whereas treatment of any such excess or shortfall is less straightforward under base rates.[634] Currently, inclusion of the delta between revenues from Dominion's market-based revenues and standard tariff revenues can impact whether all standard tariff customers receive a base rate increase, decrease, or refund.[635] Moving the delta to the fuel factor will result in either higher or lower fuel factor rates for all standard tariff customers who pay this rate.[636] Assuming the Company's proposed change becomes effective March 2024, consistent with Dominion's expected resolution of the 2023 biennial review, the Company projects $13.6 million in additional revenue would go to fuel for the four months (March 2024 – June 2024) in the current period fuel year based on current market power price forwards. If in effect for the full July 2024 – June 2025 fuel year, Dominion estimates nearly $106 million would go to fuel.[637] However, if and when Dominion's cost-of-service rates are higher than its market-based rates, Dominion's customer base would pay that difference through the fuel factor on a dollar-for-dollar basis under Dominion's proposal.

Dominion customers who elect to take service under the Company's market-based tariffs are betting that they will save money because the proxy market rates under those tariffs will end up lower than their standard cost-of-service tariff rates. Customers who do not take service under Dominion's market-based tariffs are effectively on the other side of that bet.[638] Dominion's proposal would determine where – in base rates or fuel rates – to place the potential risk and reward to standard tariff customers from the Company's market-based rates.[639] In this context, the risk to standard tariff customers is that market-based rate customers will potentially save money and therefore contribute less towards Dominion's cost-of-service. And the reward is that market-based rate customers will potentially pay more money, making additional revenue available to contribute to Dominion's cost-of-service. Based on my assessment of the record, Dominion's proposal to move the delta from base rates to fuel factor rates is reasonable, and would add some stability to fuel factor rates.

Accordingly, I recommend approval of Dominion's proposed current period rate.

Reporting

The Commission has previously directed Dominion to file in future fuel factor cases "how it monetizes the unused portion of its natural gas pipeline capacity portfolio on days when

[633] Ex. 5 (Gaskill fuel direct) at 13-15.
[634] Ex. 38 (Myers) at 35-36.
[635] Tr. at 135 (Gaskill); Tr. at 384 (Myers).
[636] Tr. at 131 (Gaskill). This assumes that market-based tariff revenues will not equal standard tariff revenues.
[637] Ex. 5 (Gaskill fuel direct) at 11-13.
[638] However, because customers eligible for market-based rates have a statutory right to shop, the availability of such rates can potentially avoid cost shifts that may be associated with statutory shopping.
[639] Tr. at 130 (Gaskill).

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the system is not constrained."[640] In the instant case, Dominion recommended that it be relieved from the requirement to report such information in future fuel factor filings, but the Company would continue to report the results of its natural gas capacity release and third-party sales monetization activities in its annual fuel procurement strategy report.[641]

In support of its request, Dominion indicated that while the estimated monetized value has been, and continues to be, considerably diminished due to the "during times of non-constraint" designation, the analysis requires significant time and resources to complete. However, Dominion would continue to report the results of its natural gas capacity release and third-party sales monetization activities in its annual fuel procurement report, as it currently does.[642] Staff agreed with Dominion that reporting pipeline monetization activities annually in the fuel procurement report is sufficient as long as the full detail of all related transactions is provided through workpapers or testimony.[643]

Based on the record, I recommend granting Dominion's request for relief from reporting this information in future fuel factor proceedings.

FINDINGS AND RECOMMENDATIONS

Case No. PUR-2023-00112

Based on applicable law and the filings in this proceeding, I find that:

(1) Dominion has requested authority to securitize approximately $1.282 billion. This amount includes $1.283 billion of deferred fuel costs as of June 30, 2023, plus $12.5 million of estimated upfront financing costs of the transaction, minus $13.7 million of payments expected from opt out and partially exempt customers;

(2) Dominion incurred the deferred fuel balance costs during the three fuel years spanning July 1, 2020, through June 30, 2023;

(3) Code § 56-249.6:2 does not provide for rate credits that would increase the securitized deferred fuel balance;

(4) Given the structural and statutory protections for bondholders, securitized utility bonds for Dominion's deferred fuel costs should be able to receive a AAA rating and a relatively low debt price, but the specific price will depend on market conditions next spring;

(5) The lump sum payment from the issuance of securitized bonds would benefit Dominion;

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[640] *See, e.g., Application of Virginia Electric and Power Company, To revise its fuel factor pursuant to § 56-249.6 of the Code of Virginia*, Case No. PUR-2018-00067, 2018 S.C.C. Ann. Rep. 425, 426, Order Establishing 2018-2019 Fuel Factor (Aug. 27, 2018).

[641] Ex. 2 (Application) at 6.

[642] Ex. 15 (Hinson fuel direct) at 10-11.

[643] Ex. 33 (McBride) at 4.

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(6) Code § 56-249.6:2 removes Commission oversight of securitization nonbypassable charges. However, Dominion has agreed that the deferred fuel balance could remain subject to Commission audit and review, provided any resulting adjustments are to fuel factor rates and not the securitization nonbypassable rates;

(7) The extended cost recovery period of securitization would result in lower bill impacts, but would change the affected ratepayers. The near-term customers' bill impact benefits of securitization would be material, regardless of whether Dominion's "status quo" or Staff's alternative fuel factor options are the baseline for comparison. But the longer the payment period, the farther Dominion's rates get from the important cost-of-service goal of attempting to allocate and assign costs to the customers who incurred them;

(8) Net present value analysis allows the customer value from keeping more money today to be assessed against increases to the total financing costs paid by customers over time. Securitization would produce net present value benefits to customers as a whole, based on present assumptions. However, the customer net present value of securitization is sensitive to U.S. Treasury rates and the coupon rates of the securitized debt, which would not be known until the bonds are priced in the spring of 2024;

(9) Securitization would extend the rate relief provided by interim fuel rates through this winter and then result in a bill impact lower than the fuel factor recovery options. Conditioning securitization authorization on Dominion certifying quantifiable customer benefits from securitization, measured not only by lower bill impacts but also by a positive net present value compared to Staff's alternative option, would ensure that customers as a whole would benefit from securitization, notwithstanding the potential for interest rates to continue to rise during the next several months and intergenerational equity;

(10) Code § 56-249.6:2 specified only two groups of customers that are exempted or may opt out from paying the nonbypassable charges, if securitization is approved. The Commission may not create additional exceptions for future customers or for new accounts of existing customers, which the law considers separate customers;

(11) Based on my weighing of the evidence, the Commission should authorize Dominion to securitize the full deferred fuel balance using bonds with a tenor of up to approximately ten years, conditioned on Dominion certifying quantifiable customer benefits from securitization, measured by lower bill impacts and a positive net present value compared to Staff's alternative option. However, depending on how the Commission weighs the evidence, the record could also support denial of securitization;

(12) Further analysis by Dominion of a call provision, which the record indicates would result in higher coupon rates for securitized bonds and a make-whole provision that would protect bondholders at the expense of ratepayers, is not supported by the record; and

(13) If the Commission approves securitization, an Affiliates Act exemption and Staff's reporting requirements would be in the public interest.

Accordingly, **I RECOMMEND** the Commission enter an order that contains the components of a financing order required by Code § 56-249.6:2 and:

(1) ***AUTHORIZES*** Dominion to securitize, in one or more series or tranches with a bond tenor of up to approximately ten years, approximately $1.282 billion of deferred fuel costs and financing costs;

(2) ***CONDITIONS*** such authorization on Dominion certifying quantifiable customer benefits from securitization, measured by both lower bill impacts and a positive net present value compared to Staff's alternative option;

(3) ***APPROVES*** the form of the proposed tariffs to implement deferred fuel cost charges, attached to the rebuttal testimony of Timothy P. Stuller as Schedules 3 and 6;

(4) ***GRANTS*** Dominion's requested exemption from the Affiliates Act for its proposed securitization activities, subject to a requirement that the Company include the following information in its Annual Report of Affiliate Transactions submitted each year to the Director of the Division of Utility Accounting and Finance, in Microsoft Excel format with formulas intact, for the duration of the Company's roles under the Servicing and Administration Agreements:

a. A schedule of the Deferred Fuel Cost Charges collected by Dominion and remitted to the special purpose entity, by month and by dollar amount;

b. A schedule that quantifies the fees paid by the special purpose entity to Dominion, by type of fee, by month, by FERC account where the proceeds from each fee is recorded on Dominion's books, and by dollar amount;

c. A schedule that quantifies Dominion's internal and external costs to carry out its responsibilities under the Servicing and Administration Agreements, by agreement, by type of cost, by month, by FERC account where each cost is recorded on Dominion's books, and by dollar amount; and

d. A schedule that quantifies any other charges or fees to/from Dominion from/to the special purpose entity, by type of charge, by month, by FERC account where each charge or fee is recorded on Dominion's books, and by dollar amount;[644]

(5) ***UPDATES*** the styling of this case to incorporate the codification of § 56-249.6:2 by the Virginia Code Commission; and

(6) ***CLOSES*** this case.

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[644] Ex. 38 (Myers) at 29-30.

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<u>**Case No. PUR-2023-00067**</u>

Based on applicable law and the filings in this proceeding, I find that:

(1) Dominion's proposed current period fuel factor rate of 2.8587¢/kWh, which is uncontested and has been in effect on an interim basis since July 1, 2023, is reasonable;

(2) Dominion's prior period fuel factor rate would be zero if, as recommended herein, securitization is authorized. However, if the Commission denies securitization for all or some of the deferred fuel balance, a prior period factor rate commensurate with the extent of such denial would need to be approved;

(3) Dominion's proposed treatment of market-based revenues received from Rate Schedule MBR and SCR Rate Schedule is reasonable; and

(4) Dominion should be relieved from the requirement for the Company to file in fuel factor cases how it monetizes the unused portion of its natural gas pipeline capacity portfolio on unconstrained days, provided that pipeline monetization activities are reported annually in the fuel procurement report with full detail of all related transactions provided through workpapers or testimony.

Accordingly, **I RECOMMEND** the Commission enter an order that:

(1) ***APPROVES*** a total fuel factor rate of 2.8587¢/kWh, consisting of only a current period factor rate;

(2) ***GRANTS*** Dominion's requested relief from the fuel factor filing requirement regarding pipeline capacity monetized on unconstrained days, as set forth herein; and

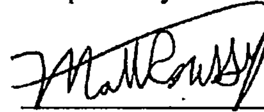
(3) ***CONTINUES*** this case.

COMMENTS

Staff and parties are advised that, pursuant to Rule 5 VAC 5-20-120 C of the Commission's Rules of Practice and Procedure ("Rules of Practice")[645] and Code § 12.1-31, any comments on this Report must be filed on or before October 3, 2023. To promote administrative efficiency, the parties are encouraged to file electronically in accordance with 5 VAC 5-20-140 of the Rules of Practice. If not filed electronically, an original and fifteen (15) copies must be submitted in writing to the Clerk of the Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218. Any party filing such comments shall attach a certificate to the foot of such document certifying that copies have been sent by electronic mail to all counsel of record and any such party not represented by counsel.

[645] 5 VAC 5-20 10 *et seq.*

Respectfully submitted,



D. Mathias Roussy, Jr.
Senior Hearing Examiner

Document Control Center is requested to send a copy of the above Report to all persons on the official Service Lists in these matters. The Service Lists are available from the Clerk of the State Corporation Commission, c/o Document Control Center, 1300 East Main Street, Tyler Building, First Floor, Richmond, VA 23219.

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ATTACHMENT 1
TO THE HEARING EXAMINER'S COMBINED REPORT

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CASE NO. PUR-2023-00067
CASE NO. PUR-2023-00112

Summary of Cost Recovery Options
Requested by the Hearing Examiner

Monthly Customer Bill Impacts and Total Financing Costs
As of December 31, 2023 - 2038
For a residential customer using 1,000 kWh per month

Option	Rate Effective Period	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	Financing Costs: Total Amount (In Millions)	In Bill Impact?
Updated Staff Witness Myers Table 3 (Incorporating Actual 6/30/23 Fuel Deferral Balance):																			
(1) "Status Quo" Fuel Factor	19 months	$ 14.72	$ 10.64	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 30.42	No
(2) Staff Alternative Fuel Factor	31 months	$ 7.42	$ 7.42	$ 7.42	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 80.93	No
(3) 7.25 Year Securitization	7.25 years	$ -	$ 3.10	$ 3.10	$ 2.92	$ 2.80	$ 2.70	$ 2.57	$ 2.44	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 289.18	Yes
(4) 10.25 Year Securitization	10.25 years	$ -	$ 2.33	$ 2.33	$ 2.19	$ 2.10	$ 2.03	$ 1.93	$ 1.84	$ 1.72	$ 1.63	$ 1.53	$ -	$ -	$ -	$ -	$ -	$ 403.34	Yes

(1) "Status Quo" Fuel Factor recovery scenario assumes $14.72 effective 12/1/23-6/30/24; $10.76 effective 7/1/24-6/30/25
(2) Staff Alternative scenario assumes $7.42 effective from 12/1/23-6/30/26
(3) and (4) Securitization scenarios assume rates effective 4/1/2024 and extending for 7.25 or 10.25 years, respectively

Option	Rate Effective Period	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	Financing Costs: Total Amount (In Millions)	In Bill Impact?
Additional Securitization Option:																			
(5) 15.25 Year Securitization	15.25 years	$ -	$ 1.74	$ 1.75	$ 1.64	$ 1.58	$ 1.52	$ 1.45	$ 1.38	$ 1.29	$ 1.22	$ 1.15	$ 1.08	$ 1.00	$ 0.95	$ 0.89	$ 0.89	$ 611.53	Yes

(5) Assumes rates effective 4/1/2024 and extending for 15.25 years

Option	Rate Effective Period	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	Financing Costs: Total Amount (In Millions)	In Bill Impact?
Fuel Factor Recovery Options (If Securitization is Not Implemented by DEV):																			
(6) Fuel Factor Recovery Effective 3/1/2024	16 months	$ -	$ 14.63	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 44.32	No
(7) Fuel Factor Recovery Effective 7/1/2024	12 months	$ -	$ 19.40	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 55.79	No

(6) Assumes $14.72 effective 3/1/24-6/30/24; $14.63 effective 7/1/24-6/30/25
(7) Assumes $19.40 effective 7/1/24 - 6/30/25

Option	Rate Effective Period	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	Financing Costs: Total Amount (In Millions)	In Bill Impact?
Partial Securitization Options (Assumes $577 Million Mitigation is Recovered in Fuel Factor):																			
(8) Fuel Factor	19 months	$ 7.34	$ 4.37	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8.78	No
7.25 Year Securitization	7.25 years	$ -	$ 1.71	$ 1.72	$ 1.61	$ 1.55	$ 1.49	$ 1.42	$ 1.35	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 163.51	Yes
Total Bill Impact 7.25 Year Partial Option		$ 7.34	$ 6.08	$ 1.72	$ 1.61	$ 1.55	$ 1.49	$ 1.42	$ 1.35	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -		
(9) Fuel Factor	19 months	$ 7.34	$ 4.37	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8.78	No
10.25 Year Securitization	10.25 years	$ -	$ 1.29	$ 1.29	$ 1.21	$ 1.16	$ 1.12	$ 1.07	$ 1.02	$ 0.95	$ 0.90	$ 0.85	$ -	$ -	$ -	$ -	$ -	$ 227.00	Yes
Total Bill Impact 10.25 Year Partial Option		$ 7.34	$ 5.66	$ 1.29	$ 1.21	$ 1.16	$ 1.12	$ 1.07	$ 1.02	$ 0.95	$ 0.90	$ 0.85	$ -	$ -	$ -	$ -	$ -		

(8) Assumes Fuel Factor recovery of remaining 2 years of mitigation plan ($577.8 million) from Case No PUR-2022-00064 over 19 months ($288.8 million recovered from 12/1/23-6/30/24 and $288.8 million recovered from 7/1/24-6/30/25).
Additional fuel deferral balance of $705.5 million accrued from 7/1/22-6/30/23 assumed to be securitized and recovered over 7.25 years.
The partial securitization in Scenario (8) was prepared at the Hearing Examiner's request based on high-level estimates and assumptions. Actuals will differ.
(9) Assumes Fuel Factor recovery of remaining 2 years of mitigation plan ($577.8 million) from Case No. PUR-2022-00064 over 19 months ($288.8 million recovered from 12/1/23-6/30/24 and $288.8 million recovered from 7/1/24-6/30/25).
Additional fuel deferral balance of $705.5 million accrued from 7/1/22-6/30/23 assumed to be securitized and recovered over 10.25 years.
The partial securitization in Scenario (9) was prepared at the Hearing Examiner's request based on high-level estimates and assumptions. Actuals will differ.

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PUR-2023-00112

ATTACHMENT 2
TO THE HEARING EXAMINER'S COMBINED REPORT

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~~EXHIBIT B~~

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

PETITION OF VIRGINIA ELECTRIC AND POWER COMPANY For a financing order authorizing the issuance of deferred fuel cost bonds pursuant to Va. Code § ~~56-249.6:1~~56-249.6:2	)))))))	Case No. PUR-2023-00112

FINANCING ORDER

During its 2023 Session, the Virginia General Assembly enacted Chapters 775 (House Bill 1770) and 757 (Senate Bill 1265). These duplicate Acts of Assembly, ~~known as~~referred to herein as the ~~Virginia Electric Utility Regulation Act (~~"Act"~~)~~, became effective July 1, 2023. The Act, *inter alia*, creates a new financing vehicle, utility cost recovery charge securitization, that may be used by an electric utility to recover certain deferred fuel costs, codified at § ~~249.6:1~~249.6:2 of Title 56 of the Code of Virginia ("Va. Code") (the "Securitization Statute").[1] Under the Securitization Statute, an electric utility may seek authorization to issue deferred fuel cost bonds that are secured by deferred fuel cost property, including a dedicated deferred fuel cost charge that is separate and distinct from the utility's base rates or fuel factor.

On July 3, 2023, Virginia Electric and Power Company ("Dominion Energy Virginia" or the "Company") filed with the State Corporation Commission of Virginia ("Commission") its petition ("Petition") for a financing order pursuant to Va. Code § ~~56-249.6:1~~56-249.6:2 to finance certain deferred fuel cost balances through deferred fuel cost bonds. Specifically, the Petition seeks:

i. To finance the deferred fuel costs and associated Up-front Financing

[1] While the General Assembly enacted the Securitization Statute as Code § 56-249.6:1, the Virginia Code Commission subsequently codified the law as Code § 56-249.6:2 to avoid duplicative statute numbers. Accordingly, all references to the Securitization Statute in this Financing Order, including the case name, are to the codified statute, Code § 56-249.6:2.

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Costs ("Up-front Financing Costs") through a securitization;[2]

ii. For approval of the proposed securitization financing structure;

iii. For approval to sponsor the issuance of Deferred Fuel Cost Bonds[3] secured by the pledge of Deferred Fuel Cost Property, in one or more series or tranches in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the first series Deferred Fuel Cost Bonds are issued);

iv. For approval of the Financing Costs, including up-front Financing Costs incurred in connected with the issuance of Deferred Fuel Cost Bonds and on-going Financing Costs ("On-going Financing Costs" and collectively, with the Up-front Financing Cost, the "Financing Costs");

v. For approval to create Deferred Fuel Cost Property, including the right to (i) impose, bill, charge, collect and receive nonbypassable Deferred Fuel Cost Charges sufficient to recover the principal of, and interest on, the Deferred Fuel Cost Bonds plus On-going Financing Costs; and (ii) obtain periodic formulaic adjustments to the Deferred Fuel Cost Property as provided in this Financing Order; and

vi. For approval of the tariff to implement the Deferred Fuel Cost Charges.

As set forth in the Petition, and updated during this proceeding, ~~the~~ Dominion Energy Virginia requests authorization to issue Deferred Fuel Cost Bonds in the amount of approximately ~~$1.2702~~$1.28191 billion, which consists of ~~$1.2578~~$1.26938- billion of deferred fuel costs, plus Up-front Financing Costs of issuing the Deferred Fuel Cost Bonds of approximately ~~$12.41~~$12.53 million (the "Securitizable Balance").[4]

~~The Petition states the Company's current fuel deferral balance continues to be substantial, largely due to significant marketplace commodity price increases during the prior~~

[2] As defined herein.

[3] All capitalized terms not otherwise defined herein shall have the meaning assigned to them in Va. Code § ~~56-249.6:1~~56-249.6:2 O and refer specifically to Dominion Energy Virginia's particular transaction approved herein.

[4] *See, e.g.*, Ex. 7.

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~~fuel period as well as the implementation of the Company's three-year mitigation proposal approved by the Commission in last year's fuel proceeding. The Company states that the option to finance the deferred fuel balance under Va. Code § 56-249.6:1 would significantly mitigate the abrupt and significant increase in the fuel factor for customers over the upcoming fuel period. According to the Company, an approximately seven-year amortization of the deferred fuel cost bonds would result in an estimated initial monthly charge from the typical residential customer using 1,000 kilowatt-hours per month ("kWh") per month of $3.05 and the approximately ten-year amortization bond structure would result in an estimated initial monthly charge of $2.29. These options compare to an increase in fuel rider charges of $14.72 per month if securitization is not approved, which would take effect in December of this year.[5] The Company also states that these options avoid the need to collect the remaining Mitigation Plan balance of approximately $289 million during the July 1, 2024 – June 30, 2025 fuel year with a projected rate of 0.437 ¢/kWh.~~

~~———~~*Code of Virginia*

Va. Code § ~~56-249.6:1~~56-249.6:2 A provides that:

> Notwithstanding the provisions of § 56-249.6 or Chapter 3 (§ 56-55 et seq.), an electric utility, on or before July 1, 2024, may petition the Commission for a financing order and the Commission shall either issue (i) such financing order or (ii) an order rejecting the petition, no more than four months from the date of filing such petition and in accordance with the requirements of subdivision 2.

Under Va. Code § ~~56-249.6:1~~56-249.6:2 A 1, the petition shall include:

> (i) an estimate of the total amount of deferred fuel costs that the electric utility has incurred over the time period noted in the petition; (ii) an indication of whether the electric utility proposes to finance

~~[5] The Commission, at the Company's request, reduced the current period fuel factor rates by $6.79 as of July 1, 2023 in our Order Establishing 2023 – 2024 Fuel Factor Proceeding issued on May 12, 2023 in Case No. PUR-2023-00067. The Company states that net of this reduction, the increase in fuel rates for the 2023-2024 period would be $7.92 per month for the typical residential customer.~~

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all or a portion of the deferred fuel costs using one or more series or tranches of deferred fuel cost bonds; (iii) an estimate and details of the financing costs related to the deferred fuel costs to be financed through the deferred fuel cost bonds; (iv) an estimate of the deferred fuel cost charges necessary to recover the deferred fuel costs and all financing costs and the proposed period for recovery of such costs; (v) a description of any benefits expected to result from the issuance of deferred fuel cost bonds, including the avoidance of or significant mitigation of abrupt and significant increases in rates to the electric utility's customers for the applicable time period; and (vi) direct testimony and exhibits supporting the petition. If the electric utility proposes to finance a portion of the deferred fuel costs, the electric utility shall identify in the petition the specific amount of deferred fuel costs for the applicable time period to be financed using deferred fuel cost bonds.

A financing order issued by the Commission pursuant to Va. Code § ~~56-249.6:1~~56-249.6:2 shall include the following:

i. The amount of deferred fuel costs to be financed using deferred fuel cost bonds. The Commission shall describe and estimate the amount of financing costs that may be recovered through deferred fuel cost charges. The financing order shall also specify the period over which deferred fuel costs and financing costs may be recovered and whether the deferred fuel cost bonds may be offered and issued in one or more series or tranches during a fixed period not to exceed one year after the date of the financing order;

ii. A finding that the proposed issuance of deferred fuel cost bonds is in the public interest and the associated deferred fuel cost charges are just and reasonable;

iii. A finding that the structuring and pricing of the deferred fuel cost bonds are reasonably expected to result in reasonable deferred fuel cost charges consistent with market conditions at the time the deferred fuel cost bonds are priced and the terms set forth in such financing order;

iv. A requirement that, for so long as the deferred fuel cost bonds are outstanding and until all financing costs have been paid in full, the imposition and collection of deferred fuel cost charges authorized under a financing order shall be nonbypassable and paid by all retail customers of the electric utility, irrespective of the generation supplier of such customer, except for an exempt retail access customer;

v. A formula-based true-up mechanism for making annual adjustments to the deferred fuel cost charges that customers are required to pay pursuant to the financing order and for making any adjustments that are necessary to correct for any overcollection or undercollection of the charges or to otherwise ensure the timely payment of deferred fuel cost bonds and financing costs and other required amounts and charges payable in connection with the deferred fuel cost bonds;

vi. The deferred fuel cost property that is, or shall be, created in favor of an electric utility or its successors or assignees and that shall be used to pay or secure deferred fuel cost bonds and all financing costs;

vii. The authority of the electric utility to establish the terms and conditions of the deferred fuel cost bonds, including repayment schedules, expected interest rates, the issuance in one or more series or tranches with different maturity dates, and other financing costs;

viii. A finding that the deferred fuel cost charges shall be allocated among customer classes in accordance with the methodology approved in the electric utility's last fuel factor proceeding;

ix. A requirement that after the final terms of an issuance of deferred fuel cost bonds have been established and before the issuance of deferred fuel cost bonds, the electric utility determines the resulting initial deferred fuel cost charge in accordance with the financing order and that such initial deferred fuel cost charge be final and effective upon the issuance of such deferred fuel cost bonds without further Commission action so long as such initial deferred fuel cost charge is consistent with the financing order;

x. A method of tracing funds collected as deferred fuel cost charges, or other proceeds of deferred fuel cost property, and a requirement that such method be the method of tracing such funds and determining the identifiable cash proceeds of any deferred fuel cost property subject to the financing order under applicable law; and

xi. Any other conditions not otherwise inconsistent with this section that the Commission determines are appropriate.

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NOW THE COMMISSION, having considered this matter, is of the opinion and finds as follows:

COSTS ELIGIBLE FOR FINANCING

Deferred fuel costs

The Commission finds that Dominion Energy Virginia's deferred fuel costs in the amount of ~~$1,270,210,000~~$1,281,910,000, inclusive of Up-Front Financing Costs, subject to adjustments through the issuance of the Deferred Fuel Cost Bonds, are eligible for financing through securitization and recovery through Deferred Fuel Cost Charges.

Further, the Commission finds (i) that the proposed issuance of Deferred Fuel Cost Bonds is in the public interest and the associated Deferred Fuel Cost Charges are just and reasonable; and (ii) that the structuring and pricing of the Deferred Fuel Cost Bonds are reasonably expected to result in reasonable deferred fuel cost charges consistent with market conditions at the time the Deferred Fuel Cost Bonds are priced and the terms set forth in this Financing Order (collectively, the "Statutory Cost Objectives").

Up-front Financing Costs

The Company's proposed Up-front Financing Costs, in the estimated amount of ~~$12,410,000,~~$12,530,000, are reasonable ~~and prudent~~ and eligible for recovery through securitization pursuant to Va. Code § 56-249.6:2 A 2 b (1) and O. Any under-recovery of Up-front Financing Costs will be eligible for future recovery in base rates.

STRUCTURE OF ISSUANCE

Dominion Energy Virginia's proposed financing structure adheres to the requirements of the Act.

Special Purpose Entities

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For purposes of securitization, it is reasonable for Dominion Energy Virginia to utilize one or more Special Purpose Entities ("SPEs"), each of which will be a Delaware limited liability company ("LLC") with Dominion Energy Virginia as its sole member. Any such SPE will be an "assignee" as defined in Va. Code § ~~56-249.6:1~~56-249.6:2 O, when an interest in Deferred Fuel Cost Property is transferred, other than as security, to such SPE, and such SPE may issue Deferred Fuel Cost Bonds in accordance with this Financing Order.

Deferred Fuel Cost Property

It is reasonable for Dominion Energy Virginia to sell or otherwise transfer Deferred Fuel Cost Property to the SPE pursuant to the terms of this Financing Order. Upon the transfer by Dominion Energy Virginia of the Deferred Fuel Cost Property to the SPE, that SPE will have all of the rights, title and interest of Dominion Energy Virginia with respect to such Deferred Fuel Cost Property, including, consistent with the Act, the right to impose, bill, charge, collect and receive the Deferred Fuel Cost Charges authorized by this Financing Order and to obtain periodic formulaic adjustments to each Deferred Fuel Cost Charge. Such Deferred Fuel Cost Property is expected to be pledged by the SPE to and held and administered by a trustee as collateral for payment of the Deferred Fuel Cost Bonds to ensure the Statutory Cost Objectives are achieved.

The Commonwealth of Virginia and its agencies, including the Commission, have pledged to and agrees with bondholders, the owners of the Deferred Fuel Cost Property, and other financing parties, that the Commonwealth and its agencies, including the Commission, will not alter the provisions of the Securitization Statute, which authorize the Commission to create Deferred Fuel Cost Property or take or permit any action that impairs the value of the Deferred Fuel Cost Property, as further described in Va. Code § ~~56-249.6:1~~56-249.6:2 J 1.

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Further, the Commonwealth and its agencies, including this Commission, will not take or permit any action that impairs or would impair the value of Deferred Fuel Cost Property or the security for the Deferred Fuel Cost Bonds or revises the deferred fuel costs for which recovery is authorized, or in any way impair the rights and remedies of the bondholders, assignees, or other financing parties.

Transaction Documents

The Company's and the SPE's entry into a Purchase and Sale Agreement, Administration Agreement, Limited Liability Company Agreement ("LLC Agreement"), Indenture, and Servicing Agreement, current forms of which are filed as exhibits to Company Witness Darius A. Johnson's testimony, ("Transaction Documents") is ~~in the public interest and~~ necessary to facilitate the transaction.[6] An exemption from the requirements of Va. Code § 56-77 A for these affiliate contracts or arrangements is in the public interest pursuant to Va. Code § 56-77 B. As a condition of the exemption granted herein, Dominion Energy Virginia shall include the following information in its Annual Report of Affiliate Transactions submitted each year to the Director of the Division of Utility Accounting and Finance, in Microsoft Excel format with formulas intact, for the duration of the Company's roles under the Servicing and Administration Agreements:

a. A schedule of the Deferred Fuel Cost Charges collected by the Company and remitted to the special purpose entity, by month and by dollar amount;

b. A schedule that quantifies the fees paid by the special purpose entity to the Company, by type of fee, by month, by FERC account where the proceeds from each fee is recorded on the Company's books, and by dollar amount;

c. A schedule that quantifies the Company's internal and external costs to carry out its responsibilities under the Servicing and Administration Agreements, by agreement,

[6] See Ex. 19 at attached Schedules 1 – 5~~, to the pre-filed direct testimony of Darius A. Johnson.~~ These Transaction Documents are subject to change to incorporate rating agency and other considerations.

by type of cost, by month, by FERC account where each cost is recorded on the Company's books, and by dollar amount; and

d. A schedule that quantifies any other charges or fees to/from the Company from/to the special purpose entity, by type of charge, by month, by FERC account where each charge or fee is recorded on the Company's books, and by dollar amount.–

Offering and Sale of Bonds

Dominion Energy Virginia is hereby authorized to sponsor the issuance of the Deferred Fuel Cost Bonds through a negotiated sale or other sales option to achieve the Statutory Cost Objectives.

Amortization, Interest Rates, and Credit Ratings of Deferred Fuel Cost Bonds

The expected term of the scheduled final payment date of the last maturing series or tranche of bonds issued pursuant to the authority granted herein, as determined in the reasonable discretion of Dominion Energy Virginia, should be no more than approximately 10 years from the issuance of the series of Deferred Fuel Cost Bonds. The legal maturity date of each tranche may be longer than the scheduled final payment date for that series or tranche.

The Commission finds that each series or tranche of the Deferred Fuel Cost Bonds should have a fixed interest rate, determined consistent with current market conditions.

Dominion Energy Virginia should strive to achieve AAA-equivalent credit ratings on the Deferred Fuel Cost Bonds, and Dominion Energy Virginia is authorized to provide the necessary credit enhancements, included in the recovery of related costs as On-going Financing Costs, to achieve such ratings.[7]

Security for the Deferred Fuel Cost Bonds

[7] Ordering Paragraph (22) authorizes Dominion Energy Virginia to make a capital contribution to the SPE. The "necessary credit enhancements" includable in On-Going Financing Costs, as identified in the above paragraph, refers to the ability to draw capital from the associated sub-account to ensure the timely payment of the interest and principal. Funds drawn down in this way would be replenished when the nonbypassable rate is subsequently trued-up. Tr. at 160 (D. Johnson).

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Dominion Energy Virginia's utilization of a collection account, including a general subaccount, a capital subaccount and an excess funds subaccount within the SPE, is reasonable and appropriate. The SPE sponsored by Dominion Energy Virginia may include other subaccounts in the collection account, if necessary, to obtain AAA-equivalent ratings on a series of Deferred Fuel Cost Bonds.

Dominion Energy Virginia as Initial Servicer of the Deferred Fuel Cost Bonds

Dominion Energy Virginia's proposal to act as initial servicer of the Deferred Fuel Cost Bonds is reasonable and appropriate. Dominion Energy Virginia will continue to act as servicer unless the Commission approves a change of control of Dominion Energy Virginia.[8]

The on-going servicing fee for Dominion Energy Virginia, acting as the initial servicer, in an annual amount of 0.05 percent of the initial principal amount of the Deferred Fuel Cost Bonds plus out-of-pocket expenses provided for in the Servicing Agreement, is necessary to compensate the servicer adequately on an arms-length basis and ensure the high credit quality of the Deferred Fuel Cost Bonds.

Dominion Energy Virginia as Administrator of the SPE

Dominion Energy Virginia's proposal to act as an administrator of the SPE under the proposed financing transaction is reasonable and appropriate.

The on-going fee to be paid to the administrator of $100,000 per year plus out-of-pocket expenses provided for in the Administration Agreement is necessary to cover the costs and expenses of administering the SPE and to preserve the integrity of the bankruptcy-remote structure of the SPE and the high credit quality of the Deferred Fuel Cost Bonds.

On-going Financing Costs

[8] Tr. at 571 (Reid).

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The On-going Financing Costs identified in Dominion Energy Virginia's Petition and that are identified in Attachment 4 of the form Issuance Advice Letter ("IAL"), which is Appendix B to this Financing Order, qualify as "financing costs" eligible for recovery pursuant to Va. Code § ~~56-249.6:1~~56-249.6:2 O.

It is appropriate for Dominion Energy Virginia to credit back to customers all periodic servicing and administration fees in excess of Dominion Energy Virginia's or an affiliate of Dominion Energy Virginia's incremental cost of performing the servicer or administrator function in the next rate case when costs and revenues associated with the servicing and administration fees will be included in the cost of service, but only to the extent such crediting does not impair the AAA-equivalent ratings on the Deferred Fuel Cost Bonds.

Deferred Fuel Cost Bonds to be Treated as "Debt" for Federal Income Tax Purposes

Dominion Energy Virginia shall structure the Deferred Fuel Cost Bond transactions in a way that meets all requirements for the Internal Revenue Service's ("IRS") Revenue Procedure 2005-62.

DEFERRED FUEL COST CHARGES

Imposition and Computation of Deferred Fuel Cost Charges

To repay the Deferred Fuel Cost Bonds and On-going Financing Costs, the SPE sponsored by Dominion Energy Virginia is authorized to impose the Deferred Fuel Cost Charges to be collected by Dominion Energy Virginia acting as initial servicer, as a nonbypassable per-kWh charge from all retail customers of the Company, irrespective of the generation supplier of such customer, except for opt out, and exempt or partially exempt retail access customers as defined in Va. Code § ~~56-249.6:1~~56-249.6:2 O, until the Deferred Fuel Cost Bonds and related Financing Costs are paid in full.

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The Securitizable Balance to be financed using Deferred Fuel Cost Bonds shall be determined in accordance with the calculation shown in Appendix A to this Financing Order.

The proposed allocation methodology of the Deferred Fuel Cost Charges is based upon Dominion Energy Virginia's existing (and previously approved) allocation methodology in the Company's last fuel factor proceeding and should be approved, pursuant to Va. Code § 56-249.6:2 A 2 b (8).

The Commonwealth of Virginia and its agencies, including the Commission, have pledged to and agrees with bondholders, the owners of the Deferred Fuel Cost Property, and other financing parties that the Commonwealth and its agencies, including the Commission, will not, except for changes made pursuant to the formulaic true-up mechanism ("True-Up Mechanism"), reduce, alter, or impair the Deferred Fuel Cost Charges until any and all principal, interest, premium, Financing Costs and other fees, expenses or charges incurred, and any contracts to be performed, in connection with the Deferred Fuel Cost Bonds have been paid and performed in full, as further described in Va. Code § ~~56-249.6:1~~56-249.6:2 J 1 (d).

Subsequent to the transfer of Deferred Fuel Cost Property to an assignee or the issuance of Deferred Fuel Cost Bonds authorized herein, whichever is earlier, this Financing Order shall be irrevocable and, except for changes made pursuant to the formula-based mechanism authorized herein, the Commission shall not amend, modify, or terminate this Financing Order by any subsequent action or reduce, impair, postpone, terminate, or otherwise adjust deferred fuel cost charges approved in the Financing Order. Upon issuance of this Financing Order, Dominion Energy Virginia shall retain sole discretion regarding whether to assign, sell, or otherwise transfer Deferred Fuel Cost Property or to cause Deferred Fuel Cost Bonds to be issued, including the right to defer or postpone such assignment, sale, transfer or issuance.

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Treatment of Deferred Fuel Cost Charges in Tariffs and on Retail Customer Bills

Dominion Energy Virginia's proposed Virginia Jurisdictional Deferred Fuel Cost Charge Tariff and Pro-Rata Share of Deferred Fuel Costs Tariff[9] comply with Va. Code § ~~56-249.6:1~~56-249.6:2 C and are appropriate for use in this proceeding.

Dominion Energy Virginia is authorized and directed to include the Deferred Fuel Cost Charge on each customer's bill as a separate line item and include both the rate and the amount of the charge on each bill as required by Va. Code § ~~56-249.6:1~~56-249.6:2 C 2 and a statement that the SPE is the owner of the rights to the Deferred Fuel Cost Charges and that Dominion Energy Virginia is acting as a servicer for the SPE as required by Va. Code § ~~56-249.6:1~~56-249.6:2 C 1.

True-Up of Deferred Fuel Cost Charges

The True-Up Mechanism and associated procedures described in Dominion Energy Virginia's Tariff, and Appendices B and C hereto, are reasonable and appropriate and are hereby approved.

JUST AND REASONABLE DEFERRED FUEL COST CHARGES

The issuance of Deferred Fuel Cost Bonds is in the public interest and the associated Deferred Fuel Cost Charges are just and reasonable. Further, the issuance of Deferred Fuel Cost Bonds will significantly mitigate abrupt and significant increases in customers' rates that would otherwise occur absent securitization, and the IAL process can confirm that customers will benefit, on a net present value basis, from the issuance.

ISSUANCE ADVICE LETTER PROCESS

[9] Ex. 54 at Attached Scheds. 3, 6.

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Because the actual structure and pricing of the Deferred Fuel Cost Bonds are unknown as of the issuance of this Financing Order, following determination of the final terms of the Deferred Fuel Cost Bonds and before issuance of the Deferred Fuel Cost Bonds, Dominion Energy Virginia will file with the Commission for each series of Deferred Fuel Cost Bonds, an IAL, as well as a form of True-Up Adjustment Letter ("TUAL," and together with the IAL, the "IAL/TUAL") in substantially the forms attached hereto as Appendices B and C. The initial Deferred Fuel Cost Charge and the final terms of the Deferred Fuel Cost Bonds described in the IAL/TUAL will be final unless before noon on the third business day after pricing of the Deferred Fuel Cost Bonds the Commission issues an order finding that the proposed issuance does not comply with the standards of this Financing Order as follows: (1) the aggregate principal amount of Deferred Fuel Cost Bonds issued does not exceed the Securitizable Balance; (2) the Deferred Fuel Cost Bonds will be issued in one or more series comprised of one or more tranches having a scheduled final payment date of no longer than approximately 10 years; (3) the Deferred Fuel Cost Bonds have received a preliminary rating of Aaa(sf) / AAA(sf) from at least two of the three major rating agencies; (4) the Deferred Fuel Cost Bonds are structured to achieve substantially level debt service payments on an annual basis; (5) the issuance of the Deferred Fuel Cost Bonds has been structured in accordance with IRS Rev. Proc. 2005-62; and (6) the structuring and pricing of the Deferred Fuel Cost Bonds resulted in reasonable Deferred Fuel Cost Charges consistent with market conditions at the time the Deferred Fuel Cost Bonds are priced and the terms set forth in this Financing Order (collectively, the "Standards of the Financing Order").

AUTHORITY

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It is appropriate to grant Dominion Energy Virginia authority to establish the final terms and conditions of the Deferred Fuel Cost Bonds and, at its option, to cause one or more series or tranches of Deferred Fuel Cost Bonds to be issued.

CONCLUSION

This Financing Order adheres to the statutory requirements outlined by the Securitization Statute necessary to issue a financing order authorizing a public utility to finance deferred fuel costs.

Accordingly, IT IS ORDERED THAT:

Approvals

(1) Approval of Petition. Dominion Energy Virginia's Petition for the issuance of a financing order pursuant to the Securitization Statute is approved, as provided in this Financing Order.

(2) Authority to Securitize. Dominion Energy Virginia's Petition for Financing Order authorizing the issuances sponsored by Dominion Energy Virginia of Deferred Fuel Cost Bonds in one or more series is granted, subject to the terms set forth in this Financing Order. Dominion Energy Virginia is hereby authorized to sponsor the issuance of Deferred Fuel Cost Bonds secured by the pledge of Deferred Fuel Cost Property, in one or more series or tranches in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the first series of Deferred Fuel Cost Bonds are issued). The proceeds are to be used to finance the equivalent of (i) recovery of Deferred Fuel Costs; plus (ii) recovery of the Up-front Financing Costs incurred in connection with issuance of the Deferred Fuel Cost Bonds. Up-front Financing Costs and On-going Financing Costs are subject to update, adjustment and approval

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pursuant to the terms of this Financing Order and the IAL procedures as provided by this Financing Order.

(3) Recovery of Excess Up-front Financing Costs. Dominion Energy Virginia's approach for recovery of any prudently incurred excess amounts of Up-front Financing Costs is reasonable.

(4) Recovery of Deferred Fuel Cost Charges. The SPE sponsored by Dominion Energy Virginia shall impose on, and Dominion Energy Virginia shall collect, as initial servicer, from all existing and future retail customers of the Company, irrespective of the generation provider of such customers, except for opt-out, and exempt or partially exempt retail access customers as defined in in Va. Code § ~~56-249.6:1~~56-249.6:2 O, as provided in this Financing Order, Deferred Fuel Charges in an amount sufficient to provide for the timely recovery of its Periodic Payment Requirement detailed in this Financing Order (including, without limitation, payment of principal and interest on the Deferred Fuel Cost Bonds and On-going Financing Costs).

(5) Approval of Tariffs. The form of the Virginia Jurisdictional Deferred Fuel Cost Charge Tariff as shown in Dominion Energy Virginia Witness Stuller's ~~Schedule 4~~rebuttal Schedule 3 is approved. The Pro-Rata Share of Deferred Fuel Costs Tariff shown in Dominion Energy Virginia Witness Stuller's ~~Schedule 5~~rebuttal Schedule 6 is approved.[10]

(6) True-Up Mechanism. The True-Up Mechanism identified in Appendix B to this Financing Order is approved and shall be applied at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled final payment date of the last maturing tranche of a series of Deferred Fuel Cost Bonds). Interim true-ups at any time are also approved.

[10] Ex. 54.

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(7) Form Agreements. The Commission finds good cause to authorize Dominion Energy Virginia to provide service to the SPE under the Servicing Agreement and for the Servicing Agreement to become effective following the effectiveness of the IAL. The Commission finds good cause to authorize Dominion Energy Virginia to administer the SPE under the Administration Agreement and for the Administration Agreement to become effective following the effectiveness of the IAL. The Commission finds good cause to authorize Dominion Energy Virginia to enter into the Purchase and Sale Agreement with the SPE to become effective following the effectiveness of the IAL.

(8) Commonwealth and Commission Pledges. The SPE issuing Deferred Fuel Cost Bonds is authorized, pursuant to Va. Code § ~~56-249.6:1~~56-249.6:2 J 2 and this Financing Order, to include the Commonwealth of Virginia pledge, and a pledge by the Commission, with respect to Deferred Fuel Cost Property and Deferred Fuel Cost Bonds and related documentation as provided for in Va. Code § ~~56-249.6:1~~56-249.6:2 J 1. The Commission finds that these Commission and Commonwealth Pledges will constitute a ~~contract with the~~pledge to bondholders, the owners of Deferred Fuel Cost Property, the SPE issuing Deferred Fuel Cost Bonds, and other financing parties. The Commission further acknowledges that the SPE issuing the Deferred Fuel Cost Bonds would be considered financing parties for purposes of Va. Code § ~~56-249.6:1~~56-249.6:2 J.

(9) Structure. The proposed transaction structure for the Deferred Fuel Cost Bonds, as set forth in the body of this Financing Order is approved.

Reports and Accounting

(10) Issuance Advice Letter. Dominion Energy Virginia shall file a combined IAL/TUAL in final form with the Commission within one business day after actual pricing of

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the Deferred Fuel Cost Bonds, substantially in the form of Appendix C to this Financing Order describing the final structure and terms of the Deferred Fuel Bond issuance, including an updated accounting of the Up-front Financing Costs, and On-going Financing Costs. Finally, the combined IAL/TUAL shall include a certification from Dominion Energy Virginia, that the structuring, pricing and Financing Costs of the Deferred Fuel Cost Bonds achieved the Statutory Cost Objectives. The Commission's review of the IAL/TUAL shall be limited to determining whether the transaction complies with the Standards of this Financing Order and whether Dominion Virginia Energy has delivered the required certification. Unless the Commission issues an order stopping the Deferred Fuel Cost Bond issuance before noon on the third business day after pricing, the transaction shall be final, irrevocable and incontestable and shall proceed without any further action of this Commission. The Commission shall only issue an order to stop the transaction if the Commission determines that (a) the transaction does not comply with the Standards of this Financing Order, or (b) Dominion Energy Virginia has not delivered the required certification. Prior to the filing of the IAL/TUAL and through the period ending with the issuance of the Deferred Fuel Cost Bonds, Dominion Energy Virginia will, to extent requested by the Commission, provide the Commission or its Staff with timely information so that the Commission acting for itself or through its Staff can remain informed of all material aspects relating to the structuring and pricing of, and Financing Costs relating to the Deferred Fuel Cost Bonds and participate as directed.

(11) True-Up Adjustment Letter. Dominion Energy Virginia or its assignee(s) are authorized to recover the Periodic Payment Requirement and shall file with the Commission at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled payment date of the latest maturing tranche of Deferred Fuel Cost Bonds) a TUAL as described

in this Financing Order that shall be based upon the cumulative differences, regardless of the reason, between the Periodic Payment Requirement and the actual amount of Deferred Fuel Cost Charge remittances to the trustee for the series of Deferred Fuel Cost Bonds. Upon the filing of a TUAL made pursuant to this Financing Order, the Commission shall either administratively approve the requested true-up calculation in writing or inform the servicer of any mathematical or clerical errors in its calculation within 30 days following the servicer's true-up filing. Notification and correction of any mathematical or clerical errors shall be made so that the true-up is implemented within 30 days of the servicer's filing of a TUAL and no potential modification to correct an error in a TUAL shall delay its effective date and any correction or modification which could not be made prior to the effective date shall be made in the next TUAL. Upon administrative approval or the passage of 30 days without notification of a mathematical or clerical error, no further action of the Commission will be required prior to implementation of the true-up.

(12) Changes to Deferred Fuel Cost Charges. Upon any change to Deferred Fuel Cost Charges stemming from the True-Up Mechanism, Dominion Energy Virginia shall file appropriately-revised tariff sheets with the Commission, provided, however, that approval of the Deferred Fuel Cost Charges shall not be delayed or otherwise adversely impacted by the Commission's decision with respect to the tariff.

(13) Imposition and Collection, Nonbypassability. Dominion Energy Virginia, including its sponsored SPE is authorized to impose, bill, charge, collect, receive, and adjust from time to time pursuant to the True-Up Mechanism (as described in this Order) a Deferred Fuel Cost Charge, to be collected on a per kWh basis from each of its existing and future retail customers, irrespective of the generation supplier of such customer, except for an opt-out,

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exempt or partially exempt retail access customer, until the related Deferred Fuel Cost Bonds are paid in full and all related Financing Costs and other costs of the bonds have been recovered in full. Such Deferred Fuel Cost Charges shall be nonbypassable charges that are separate and apart from Dominion Energy Virginia's base rates and shall be paid by all Dominion Energy Virginia jurisdictional existing and future customers receiving transmission or distribution service, or both, from Dominion Energy Virginia or its successors or assignees under Commission-approved rate schedules as provided in this Financing Order. Such Deferred Fuel Cost Charges shall be in amounts sufficient to ensure the timely payment of Dominion Energy Virginia's Deferred Fuel Cost Bonds as detailed in this Financing Order and the IAL (including payment of principal of and interest on the Deferred Fuel Cost Bonds and On-going Financing Costs).

(14) Allocation. The Deferred Fuel Cost Charges shall be allocated to the customer classes in accordance with the methodology approved in the Company' last fuel factor proceeding, Case No. PUR-2022-00064.

(15) Collection Period. This Financing Order and the Deferred Fuel Cost Charges authorized hereby shall remain in effect until the Deferred Fuel Cost Bonds and all Financing Costs (including tax liabilities) related thereto have been paid or recovered in full. This Financing Order shall remain in effect and unabated notwithstanding the reorganization, bankruptcy or other insolvency proceedings of Dominion Energy Virginia or its successors or assignees.

(16) Following repayment of Deferred Fuel Cost Bonds and the relevant Financing Costs authorized in this Financing Order and release of the funds by the indenture trustee, each SPE shall distribute the final balance of its collection account to Dominion Energy Virginia and

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Dominion Energy Virginia shall credit other electric rates and charges by a like amount, less the amount of the relevant capital subaccount and any unpaid return on invested capital due to Dominion Energy Virginia as set forth in the body of this Financing Order.

(17) Ownership Notification and Separate Line Item Charge. The electric bills of Dominion Energy Virginia must explicitly reflect that a portion of the charges on such bill represents Deferred Fuel Cost Charges approved in this Financing Order and must include a statement to the effect that the SPE is the owner of the rights to Deferred Fuel Charges and that Dominion Energy Virginia is acting as servicer for the SPE. The tariff applicable to customers must indicate the Deferred Fuel Cost Charges and the ownership of that charge. Dominion Energy Virginia shall identify amounts owed with respect to its Deferred Fuel Cost Property as a separate line item on individual electric bills.

Deferred Fuel Cost Property

(18) Outside Costs. Costs associated with the Commission's outside consultant and any outside counsel, to the extent such costs are eligible for compensation and approved for payment under the terms of such party's contractual arrangements with the Commission, as such arrangements may be modified by any amendment entered into at the Commission's sole discretion, will qualify as Up-front Financing Costs and be paid from proceeds of Deferred Fuel Cost Bonds.

(19) Creation of Deferred Fuel Cost Property. The creation of the Dominion Energy Virginia's Deferred Fuel Cost Property as described in this Financing Order is approved and, upon transfer of the Deferred Fuel Cost Property to the SPE, shall be created, and shall consist of: (1) all rights and interests of Dominion Energy Virginia or its successors or assignees under this Financing Order, including the right to impose, bill, charge, collect and receive Deferred

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Fuel Charges authorized in this Financing Order and as initial servicer to obtain periodic adjustments to such charges as provided in this Financing Order, and (2) all revenues, collections, claims, rights to payments, payments, money or proceeds arising from the rights and interests specified in this Financing Order, regardless of whether such revenues, collections, claims, rights to payment, payments, money or proceeds are imposed, billed, charged, received, collected or maintained together with or commingled with other revenues, collections, rights to payment, payments, money or proceeds. The creation of Deferred Fuel Cost Property is conditioned upon, and shall be simultaneous with, the sale or other transfer of the Deferred Fuel Cost Property to the SPE, the issuance of the Deferred Fuel Cost Bonds and the pledge of the Deferred Fuel Cost Property to secure a series of Deferred Fuel Cost Bonds.

(20) Deferred Fuel Cost Property Existence. The Deferred Fuel Cost Property shall exist until the Deferred Fuel Cost Bonds are paid in full and all Financing Costs and other related costs have been recovered in full.

(21) Irrevocability. Upon the earlier of either (i) the transfer of the Deferred Fuel Cost Property or (ii) issuance of the Deferred Fuel Cost Bonds, this Financing Order is irrevocable and, except for changes made pursuant to the formula-based mechanism authorized in this Financing Order, the Commission may not amend, modify, or terminate this Financing Order by any subsequent action or reduce, impair, postpone, terminate or otherwise adjust the Deferred Fuel Cost Charges approved in this Financing Order.

Structure of Securitization

(22) SPE. Dominion Energy Virginia is authorized to utilize one or more SPEs to be structured as discussed in this Financing Order. Dominion Energy Virginia is authorized to execute one or more LLC Agreements, consistent with the form included as Schedule 4 to

Company Witness Johnson's testimony and the terms and conditions of this Financing Order. The SPE shall be funded with an amount of capital that is sufficient for the SPE to carry out its intended functions as contemplated in the Petition and this Financing Order. The Commission approves an initial capital contribution of 0.5 percent of the initial aggregate principal amount of a series of Deferred Fuel Cost Bonds or such other amount required to obtain the highest credit ratings. The capital contributions by Dominion Energy Virginia to the SPE shall be funded by Dominion Energy Virginia and not from the proceeds of the sale of Deferred Fuel Cost Bonds. Dominion Energy Virginia will be permitted to earn a rate of return on its invested capital in its SPE equal to the rate of interest payable on the longest maturing tranche of Deferred Fuel Cost Bonds and this return on invested capital should be a component of the Periodic Payment Requirement.

(23) Servicing and Administration Fees. The servicing and administration fees collected by Dominion Energy Virginia or any affiliate of Dominion Energy Virginia, acting as either the servicer or the administrator under the Servicing Agreement or Administration Agreement, respectively, will be included in Dominion Energy Virginia's cost of service such that Dominion Energy Virginia will credit back all periodic servicing fees in excess of Dominion Energy Virginia's or an affiliate of Dominion Energy Virginia's incremental costs of performing servicing as administration functions, but only to the extent the AAA-equivalent ratings on the Deferred Fuel Cost Bonds are not impaired. The expenses incurred by Dominion Energy Virginia or such affiliate to perform obligations under the Servicing Agreement or Administration Agreement not otherwise recovered through the Deferred Fuel Charges will likewise be included in Dominion Energy Virginia's cost of service.

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(24) Dominion Energy Virginia as Servicer. Dominion Energy Virginia shall act as initial servicer under the proposed financing transaction and is granted flexibility to act as initial servicer pursuant to the Servicing Agreement discussed in this Financing Order.

(25) Third Party Servicer. If the Commonwealth of Virginia or the Commission decides to allow billing, collection and remittance of the Deferred Fuel Charges by a third-party servicer within the Dominion Energy Virginia service territory, such authorization will be consistent with the rating agencies' requirements necessary for the Deferred Fuel Cost Bonds to receive and maintain the targeted AAA-equivalent rating.

(26) Issuance. In accordance with the terms of this Financing Order and subject to the criteria and procedures described herein, the SPE is authorized to issue Deferred Fuel Cost Bonds in an aggregate principal amount not to exceed the Securitizable Balance (as of the date the Deferred Fuel Cost Bonds are issued) and may pledge to an indenture trustee, as collateral for payment of the Deferred Fuel Cost Bonds, the Deferred Fuel Cost Property, including the SPE's right to receive the related Deferred Fuel Cost Charges as and when collected, the SPE's rights under the Servicing Agreement and other collateral described in the Indenture. As provided in Va. Code § ~~56-249.6:1~~56-249.6:2 A 2 e, Dominion Energy Virginia retains sole discretion regarding whether to assign, sell or otherwise transfer Deferred Fuel Property or to cause the Deferred Fuel Cost Bonds to be issued, including the right to defer or postpone such assignment, sale, transfer or issuance and the Commission will not refuse to allow Dominion Energy Virginia to recover Deferred Fuel Costs in an otherwise permissible fashion.

(27) IRS Safe Harbor Provisions. Dominion Energy Virginia shall be responsible to structure the Deferred Fuel Cost Bond transactions in a way that complies with the "safe harbor" provisions of IRS Revenue Procedure 2005-62.

(28) This case is dismissed.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to all persons on the official Service List in this matter. The Service List is available from the Clerk of the State Corporation Commission, c/o Document Control Center, 1300 East Main Street, First Floor, Tyler Building, Richmond, Virginia 23219.

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Appendix A

SUMMARY OF CALCULATION OF DOMINION ENERGY VIRGINIA'S SECURITIZABLE BALANCE

(In Thousands)

Estimated Deferred Fuel Costs	$ ~~1,257,800~~ 1,269,380
Estimated Up-front Financing Costs[1]	$ ~~12,410~~ 12,530
Estimated Principal Amount Deferred Fuel Cost Bonds	$ ~~1,270,210~~ 1,281,910

[1] Final Up-front Financing Costs to be included in the Issuance Advice Letter.

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Appendix B

[Form of Issuance Advice Letter]

[________, 20__]

VIA ELECTRONIC FILING

To the State Corporation Commission:

In compliance with the terms of the Financing Order issued by the State Corporation Commission (the "Commission") in Case No. PUR-2023-00112 (the "Financing Order"), Virginia Electric and Power Company ("Dominion Energy Virginia" or the "Company") is transmitting for filing this Issuance Advice Letter with respect to the Deferred Fuel Cost Bonds described in the "Issuance Information" section below. Any terms not defined in this Issuance Advice Letter will have the meanings ascribed to those terms in either the Financing Order or Va. Code § ~~56-249.6:1~~56-249.6:2.

In the Financing Order, the Commission requires the Company to file an Issuance Advice Letter for the Deferred Fuel Cost Bonds within one business day after determination of the final terms of the Deferred Fuel Cost Bonds but before the issuance of the Deferred Fuel Cost Bonds.

Final Structure and Terms:

Under the Financing Order, the Commission requires the Issuance Advice Letter to describe the final structure and terms of the Deferred Fuel Cost Bond issuance, including an updated accounting of the Up-front Financing Costs, and On-going Financing Costs. The final structure and terms of the Deferred Fuel Cost Bonds to be issued in accordance with this Issuance Advice Letter are as follows:

Name of Deferred Fuel Cost Bonds: [ ]
Name of SPE: [ ]
Name of Deferred Fuel Cost Bond Trustee: [ ]
Pricing Date: [ ]
Expected Closing Date: [ ]
Preliminary Bond Ratings[1]: Moody's, [Aaa(sf)]; Standard & Poor's, [AAA(sf)]; Fitch, [AAAsf] (final ratings to be received prior to closing)
Total Principal Amount of Deferred Fuel Cost Bonds (equal to Deferred Fuel Costs plus Up-front Financing Costs): $[ ] (See Attachment 1)
Estimated Up-front Financing Costs: $[ ] (See Attachment 2)
Interest Rates and Expected Amortization Schedules (See Attachment 3)
Distributions to Investors: Semi-annually
Weighted Average Coupon Rate[2]: [ ]%
Annualized Weighted Average Yield[3]: [ ]%
Initial Balance of Capital Subaccount: $[ ]

[1] The Company anticipates receiving bond ratings from at least two of the three major rating agencies.
[2] Weighted by modified duration and principal amount of each tranche.
[3] Weighted by modified duration and principal amount, calculated including selling commissions.

Estimated/Actual On-going Financing Costs for first year of Deferred Fuel Cost Bonds:
$[ ] (See Attachment 4)

Certification by Dominion Energy Virginia:

Under the Financing Order, the Commission also requires a certification from Dominion Energy Virginia that the structuring, pricing and Financing Costs of the Deferred Fuel Cost Bonds achieved the Statutory Cost Objectives. The Company's certification is set forth in Attachment 5, which also includes the statement of the actions taken by Dominion Energy Virginia to achieve the Statutory Cost Objectives as required by the Financing Order.

Review by the Commission:

Under the Financing Order, unless the Commission issues an order stopping the Deferred Fuel Cost Bond issuance before noon on the third business day after the pricing date, the transaction shall be final, irrevocable and incontestable and shall proceed without any further action of the Commission.

Under the Financing Order, the Commission shall only issue an order to stop the transaction if the Commission determines that (a) the transaction does not comply with the Standards of the Financing Order, or (b) Dominion Energy Virginia has not delivered the required certification.

As further detailed in the Financing Order, the Standards of the Financing Order are as follows:

- the aggregate principal amount of Deferred Fuel Cost Bonds issued does not exceed the Securitizable Balance;
- [each tranche of] the Deferred Fuel Cost Bonds [have / has] a scheduled final payment date of no longer than approximately 10 years;
- the Deferred Fuel Cost Bonds have received a preliminary rating of Aaa(sf) / AAA(sf) from at least two of the three major rating agencies;
- the Deferred Fuel Cost Bonds are structured to achieve substantially level debt service payments on an annual basis;
- the issuance of the Deferred Fuel Cost Bonds has been structured in accordance with IRS Rev. Proc. 2005-62; and
- the structuring and pricing of the Deferred Fuel Cost Bonds resulted in reasonable Deferred Fuel Cost Charges consistent with market conditions at the time of pricing the Deferred Fuel Cost Bonds and the terms set forth in the Financing Order.

Respectfully Submitted,

Virginia Electric and Power Company

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Attachment 1

TOTAL PRINCIPAL AMOUNT OF DEFERRED FUEL COST BONDS TO BE ISSUED (TOTAL AMOUNT OF DEFERRED FUEL COST AND UP-FRONT FINANCING COSTS TO BE FINANCED)

Deferred fuel costs	$
Estimated Up-front Financing Costs included in Proposed	$
Total Deferred Fuel Cost Bond Issuance (rounded up)	$

Attachment 2

ESTIMATED UP-FRONT FINANCING COSTS

Underwriters' Fees and Expenses	$
Servicer Set-up Fee (including IT Programming Costs)	$
Legal Fees	$
Rating Agency Fees	$
Commission Staff Financial Advisor Fees	$
Commission Staff Legal Fees	$
Structuring Advisor Fee	$
Accounting Fees	$
SEC Fees	$
SPE Set-up Fee	$
Marketing and Miscellaneous Fees and Expenses	$
Printing / Edgarizing Expenses	$
Trustee's/Trustee's Counsel's Fees and Expenses	$
Original Issue Discount	$
Other Ancillary Agreements	$
TOTAL ESTIMATED UP-FRONT FINANCING COSTS	$

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<u>Attachment 3</u>

EXPECTED AMORTIZATION SCHEDULE

A. General Terms

Tranche	Price	Coupon	Average Life	Scheduled Final Payment	Legal Final Maturity

B. Scheduled Amortization Requirement of Deferred Fuel Cost Bonds

Series [ ], Tranche [A-1]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

Series [ ], Tranche [A-2]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

Series [ ], Tranche [A-3]					
Payment Date	Beginning Principal Balance	Interest	Principal	Total Payment	Ending Principal Balance

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Attachment 4

ESTIMATED ANNUAL ON-GOING FINANCING COSTS

	Annual Amount
Servicing Fee[4]	$
Return on Invested Capital	$
Administration Fee	$
Accounting Fees	$
Regulatory Assessment Fees	$
Legal Fees	$
Rating Agency Surveillance Fees	$
Trustee Fees	$
Independent Manager Fees	$
Miscellaneous Fees and Expenses	$
TOTAL ESTIMATED ANNUAL ON-GOING FINANCING COSTS	$

[4] Low end of the range assumes the Company is the servicer (0.05%). Upper end of the range reflects an alternative servicer (0.60%), if approved by the Commission.

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Attachment 5

CERTIFICATION
OF
VIRGINIA ELECTRIC AND POWER COMPANY

[________, 20__]

VIA ELECTRONIC FILING

To the State Corporation Commission:

In compliance with the terms of the Financing Order issued by the State Corporation Commission (the "Commission") in Case No. PUR-2023-00112 (the "Financing Order"), Virginia Electric and Power Company ("Dominion Energy Virginia" or the "Company") submits this Certification. All capitalized terms not defined in this letter shall have the meanings ascribed to them in the Financing Order.

In its Issuance Advice Letter dated [______, 20__], the Company has set forth the following particulars of the Deferred Fuel Cost Bonds:

Name of Deferred Fuel Cost Bonds: [ ]
Name of SPE: [ ]
Name of Deferred Fuel Cost Bond Trustee: [ ]
Pricing Date: [ ]
Expected Closing Date: [ ]
Preliminary Bond Ratings[5]: Moody's, [Aaa(sf)]; Standard & Poor's, [AAA(sf)]; Fitch, [AAAsf] (final ratings to be received prior to closing)
Total Principal Amount of Deferred Fuel Cost Bonds (equal to Deferred Fuel Costs plus Up-front Financing Costs): $[ ]
Estimated Up-front Financing Costs: $[ ]
Interest Rates and Expected Amortization Schedules of the Deferred Fuel Cost Bonds and Distributions to Investors: Semi-annually
Weighted Average Coupon Rate[6]: [ ]%
Annualized Weighted Average Yield[7]: [ ]%
Initial Balance of Capital Subaccount: $[ ]
Estimated/Actual On-going Financing Costs for first year of Deferred Fuel Cost Bonds: $[ ]

In accordance with the procedures set forth in the Financing Order, the following actions were taken in connection with the structuring and pricing of the Deferred Fuel Cost Bonds and the determination of the related financing costs in order to satisfy the Statutory Cost Objectives:

---

[5] The Company anticipates receiving bond ratings from at least two of the three major rating agencies.
[6] Weighted by modified duration and principal amount of each tranche.
[7] Weighted by modified duration and principal amount, calculated including selling commissions.

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- [Included credit enhancements in the form of the true-up mechanism and an equity contribution to [ ] of 0.50% of the original principal amount of the bonds;
- Developed rating agency presentations and worked actively with the rating agencies during the rating agency process to achieve Aaa(sf) / AAAsf from at least two of the three major rating agencies;
- Worked to select key transaction participants, including lead underwriters and co-managers through an RFP process to determine that they have relevant experience and execution capabilities, and who were aligned with Dominion Energy Virginia's objectives, namely broad distribution to investors and willingness to market the bonds in a manner consistent with the superior credit quality and uniqueness of the bonds;
- Hired a diverse group of underwriters, including underwriters with international and mid-tier expertise in order to attract a wide variety of potential investors;
- Reviewed detailed marketing plans submitted by each lead underwriter;
- Allowed sufficient time for investors to review [relevant marketing materials] and the preliminary prospectus and to ask questions regarding the transaction;
- Attended telephonic pre-marketing investor meetings in [_____];
- Arranged issuance of rating agency pre-sale reports during the marketing period;
- During the period that the bonds were marketed, held several market update discussions with the underwriting team and the to develop recommendation for pricing;
- Had multiple conversations with all of the members of the underwriting team during the marketing phase in which we stressed the requirements of the Financing Order;
- Developed and implemented a marketing plan designed to encourage each of the underwriters to aggressively market the bonds to a broad base of prospective corporate and asset backed securities investors;
- Conducted in person and telephonic roadshows with over [ ] investors in [ ] cities;
- Provided other potential investors with access to an internet roadshow for viewing at investors' convenience;
- Adapted the bond offering to market conditions and investor demand at the time of pricing consistent with the guidelines outlined within the Financing Order. Variables impacting the final structure of the transaction were evaluated including the length of the average lives and maturity of the bonds and the interest rate requirements at the time of pricing so that the structure of the transaction would correspond to investor preferences and rating agency requirements for the highest rating possible; and
- Developed bond allocations, underwriter compensation and preliminary price guidance designed to achieve customer savings.]

Based on the statutory criteria and procedures, the record in this proceeding, and other provisions of the Financing Order, Dominion Energy Virginia certifies the statutory requirements for issuance of the Deferred Fuel Cost Bonds have been met, specifically that the imposition and collecting of the Deferred Fuel cost Charges as authorized by the Financing Order provides quantifiable benefits

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to customers of Dominion Energy Virginia as compared to the costs that would have been incurred absent the issuance of the Deferred Fuel Cost Bonds and that the structuring, pricing and financing costs of the Deferred Fuel Cost Bonds are reasonably expected to result in reasonable deferred fuel cost charges consistent with market conditions at the time the Deferred Fuel Cost Bonds are priced and the terms set forth in the Financing Order. For purposes of this certification, "quantifiable benefits to customers" includes lower bill impacts and a positive net present value calculation compared to Staff's alternative fuel factor option of recovering the Company's deferred fuel balance by charging a 0.742¢/kWh rate for 31 months. Updated bond pricing, Staff's cash flow rendering, and an updated weighted average cost of capital were incorporated in such net present value calculations.

This certification is being provided to the Commission by the Company in accordance with the terms of the Financing Order, and no one other than the Commission shall be entitled to rely on the certification provided herein for any purpose.

Respectfully Submitted,

Virginia Electric and Power Company

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Appendix C

Dominion Energy Services, Inc.
Law Department
120 Tredegar Street, Richmond, VA 23219
DominionEnergy.com

Lisa R. Crabtree
Senior Counsel
Direct: (804) 819-2612; Facsimile: (804) 819-2183
Email: lisa.r.crabtree@dominionenergy.com

BY ELECTRONIC FILING

DATE

Mr. Bernard Logan, Clerk
Document Control Center
State Corporation Commission of Virginia
1300 East Main Street
Richmond, Virginia 23219

[Form of Standard True-Up Adjustment Letter]

Petition of Virginia Electric and Power Company,
For a financing order authorizing the issuance of deferred fuel cost bonds
pursuant to Va. Code § ~~56-249.6:1~~56-249.6:2
Case No. PUR-2023-00112

Dear Mr. Logan:

Pursuant to the Virginia State Corporation Commission's ("Commission") [____, 20__] Order in Case No. PUR-2023-00112 (the "Financing Order"), Virginia Electric and Power Company ("Dominion Energy Virginia" or the "Company") as Servicer of the deferred fuel cost bonds ("Deferred Fuel Cost Bonds") has filed a request for an adjustment to the deferred fuel cost charges ("Deferred Fuel Cost Charges"). This adjustment is intended to satisfy the requirements of Va. Code § ~~56-249.6:1 A 2 d~~56-249.6:2 A 2 d, and the Financing Order by ensuring that the Deferred Fuel Cost Charges will recover amounts sufficient to timely provide for payments of debt service and other required amounts in connection with the Deferred Fuel Cost Bonds. Per the Financing Order, the Company will file at least semi-annually (and at least quarterly beginning 12 months prior to the last scheduled payment date of the latest maturing tranche of Deferred Fuel Cost Bonds) a letter in this docket for Commission review, as described in Va. Code § ~~56-249.6:1 A 2 d~~56-249.6:2 A 2 d and in the form attached thereto ("True-up Adjustment Letter" or, "TUAL"). The Deferred Fuel Cost Bonds were issued on [____, 20__]. Dominion Energy Virginia filed its first True-Up Adjustment Letter on [____, 20__].

Ordering Paragraph 11 of the Financing Order describes how such True-Up Adjustment Letters are to be handled:

> Upon the filing of a TUAL made pursuant to this Financing Order, the Commission shall either administratively approve the requested true-up calculation in writing or inform the servicer of any mathematical or clerical errors in its calculation within 30 days

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following the servicer's true-up filing. Notification and correction of any mathematical or clerical errors shall be made so that the true-up is implemented within 30 days of the servicer's filing of a TUAL and no potential modification to correct an error in a TUAL shall delay its effective date and any correction or modification which could not be made prior to the effective date shall be made in the next TUAL. Upon administrative approval or the passage of 30 days without notification of a mathematical or clerical error, no further action of the Commission will be required prior to implementation of the true-up.

Attached is the Revised Sheet No. [ ] reflecting the change in the Deferred Fuel Cost Charges.

Per the Company's request in its True-Up Adjustment Letter and in accordance with the Financing Order, the proposed adjustments to the Deferred Fuel Cost Charges will be effective on [___, 20__].

Respectfully submitted,

Virginia Electric and Power Company

Enclosures

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Appendix C

Virginia Electric and Power Company
Deferred Fuel Cost Charge True-up Mechanism Form
For Deferred Fuel Cost Charge to be effective _______

	Description	Calculation of the True-up (1)	Projected Revenue Requirement to be Billed and Collected (2)	Revenue Requirement for Deferred Fuel Cost Charge (1)+(2)=(3)
	Deferred Fuel Cost Bond Repayment Charge (remitted to SPE)			
	True-up for the Prior Remittance Period Beginning _______ and Ending _______:			
1	Principal			
2	Interest			
3	Servicing Costs			
4	Other On-Going Costs			
5	Total Prior Remittance Period Revenue Requirements (Line 1+2+3+4)	$ -		
	Prior Remittance Period Actual Cash Receipt Transfers and Interest Income:			
6	Cash Receipts Transferred to the SPE			
7	Interest Income on Subaccounts at the SPE			
8	Total Current Period Actual Daily Cash Receipts Transfers and Interest Income (Line 6 + 7)	$ -		
9	(Over)/Under Collections of Prior Remittance Period Requirements (Line 5+8)	-		
10	Cash in Excess Funds Subaccount			
11	Cumulative (Over)/Under Collections through Prior Remittance Period (Line 9+10)	$ -		$ -
	Current Remittance Period Beginning _______ and Ending _______			
12	Principal			
13	Interest			
14	Servicing Costs			
15	Other On-Going Costs			
16	Total Current Remittance Period Revenue Requirement (Line 12+13+14+15)	$ -		
	Current Remittance Period Cash Receipt Transfers and Interest Income:			
17	Cash Receipts Transferred to SPE	(A)	(B)	
18	Interest Income on Subaccounts at SPE	(A)	(B)	
19	Total Current Remittance Period Cash Receipt Transfers and Interest Income (Line 17+18)	$ -	$ -	
20	Estimated Current Remittance Period (Over)/Under Collection (Line 16+19)			$ -
	Projected Remittance Period Beginning _______ and Ending _______			
21	Principal			
22	Interest			
23	Servicing Costs			
24	Other On-Going Costs			
25	Projected Remittance Period Revenue Requirement (Line 21+22+23+24)		$ -	$ -
26	Total Revenue Requirements (Line 11+20+25)			$ -
27	Less Revenue Collected at Prior Charge			
28	Remaining Revenue to be Collected at New Charge			$ -
29	Forecasted kWh Sales for the Projected Remittance Period Collections (adjusted for uncollectibles)			(C)
30	Average Deferred Fuel Cost Charge per kWh to be effective _______ (Line 28/29)			

Notes:
(A) Amount are based on actual collection for _______ through _______.
(B) Includes estimate remittance amounts for _______ through _______.
(C) Projected for services rendered _______ through _______. Collections are calculated based on days sales outstanding and charge offs.