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COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

**PETITION OF**

**VIRGINIA ELECTRIC AND POWER COMPANY** **CASE NO. PUR-2023-00221**

**For revision of a rate adjustment clause, designated Rider RPS, under § 56-585.1 A 5 d of the Code of Virginia for the Rate Year commencing September 1, 2024**

## REPORT OF A. ANN BERKEBILE, CHIEF HEARING EXAMINER

**May 28, 2024**

Virginia Electric and Power Company ("Dominion" or "Company") seeks to update its Rider RPS for the recovery of projected and actual costs related to its compliance with the mandatory renewable energy portfolio standards ("RPS Program") established in the Virginia Clean Economy Act ("VCEA").[1] The record and applicable statutory provisions support the approval of an updated Rider RPS with a total revenue requirement of $358,138,438 for the rate year of September 1, 2024, to August 31, 2025 ("Rate Year").

## HISTORY OF THE CASE

On December 8, 2023, Dominion filed a petition ("Petition") with the State Corporation Commission ("Commission") for the revision of a rate adjustment clause ("RAC"), designated Rider RPS, pursuant to § 56-585.1 A 5 d of the Code of Virginia ("Code"). Through its Petition, the Company seeks to recover projected and actual costs related to compliance with the mandatory RPS Program established by the VCEA. Concurrent with its Petition, the Company filed a Motion for Entry of a Protective Order and Additional Protective Treatment.

On January 5, 2024, the Commission entered its Order for Notice and Hearing wherein, among other things, the Commission: (i) docketed this matter; (ii) required Dominion to provide notice of the Petition;[2] (iii) scheduled a public evidentiary hearing for May 14, 2024; and (iv) appointed a Hearing Examiner to conduct all further proceedings in this matter on behalf of the Commission and to file a final report.

On January 10, 2024, a Hearing Examiner's Protective Ruling and Additional Protective Treatment for Extraordinarily Sensitive Contracts and Prices Information and Market Information was entered establishing procedures for the protection of confidential and extraordinarily sensitive information in this case.

On February 13, 2024, the Company filed a Motion for Leave to File Supplemental Direct Testimony ("Supplemental Testimony Motion") wherein it requested leave to file supplemental direct testimony correcting an error in its calculation of the original revenue

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[1] 2020 Va. Acts chs. 1193, 1194.

[2] A copy of the Company's Proof of Notice and Service was admitted as an exhibit ("Ex.") into the record of this case. *See* Ex. 1.

requirement sought in this case. Specifically, the Supplemental Testimony Motion reflected that the Company was lowering its requested revenue requirement to $358,138,438, an amount that is appropriately $8,390,161 lower than the revenue requirement initially requested in the Petition.[3] A Ruling was entered on February 14, 2024, granting the Supplemental Testimony Motion.

Notices of Participation were filed in this case by the Virginia Committee for Fair Utility Rates ("Committee"); and the Office of the Attorney General's Division of Consumer Counsel ("Consumer Counsel").

*Written Comments*

Although one written comment was submitted that referenced the case number for this proceeding, such comment appears to relate to a different utility and not to pertain to Rider RPS.

*Hearing*

The evidentiary hearing in this matter was convened on May 14, 2024, as scheduled. Elaine S. Ryan, Esquire, and Nicole M. Allaband, Esquire, appeared on behalf of the Company. C. Meade Browder, Jr., Esquire, appeared on behalf of Consumer Counsel. Frederick D. Ochsenhirt, Esquire, and Simeon Brown, Esquire, appeared on behalf of the Staff of the Commission ("Staff"). The Committee asked to be excused and did not appear at the hearing.

## SUMMARY OF THE RECORD

*Petition*

Dominion represented in the Petition that it will meet the annual requirements of the statutorily mandated RPS Program through the retirement of renewable energy certificates ("RECs") that will be sourced from a combination of (i) RECs generated from Company-owned renewable energy facilities; (ii) RECs generated from renewable energy facilities owned by an entity other than the Company with which the Company has entered into a power purchase agreement ("PPA"); and (iii) RECs obtained through long-term REC-only contracts and market purchases.[4] The Company also indicated it may bank the RECs generated by Virginia facilities from 2021 through 2024 for use in 2025 when the VCEA mandate for Virginia-located resources begins.[5]

The Company explained in the Petition that to determine the total cost of RECs to be recovered through Rider RPS, it first determined its projected RPS Program requirements for 2024, and then used those projections to determine the estimated volume of RECs needed during the Rate Year.[6] Dominion asserted it then determined the projected volume of RECs that the

[3] Supplemental Testimony Motion at 2.
[4] Ex. 2 and 2ES (Petition), at 3. Although extraordinarily sensitive versions of certain exhibits were admitted into evidence in this case, only public information is specifically referenced herein.
[5] *Id.*
[6] *Id.* at 3-4.

Company would need to utilize from its bank or purchase from the market.[7] Dominion indicated that for any RECs the Company would need to purchase or utilize from the bank, it multiplied the volume of RECs by a weighted average price to determine the cost of the gross purchases and banked RECs needed for the Rate Year.[8] The Petition also represented Dominion expected to need approximately 12.6 million RECs during the Rate Year, approximately 126,000 of which the Company maintained must come from distributed energy resources ("DERs").[9] According to Dominion, once it determined the total costs of RECs to be recovered in this proceeding, it applied a Virginia jurisdictional allocation factor.[10]

As further reflected in the Petition, the Company initially sought approval of a total revenue requirement for Rider RPS of $366,528,599 for the Rate Year, consisting of a Projected Cost Recovery Factor and an Actual Cost True-Up Factor.[11] However, as clarified in the Supplemental Testimony Motion referenced above, and supplemental testimony summarized below, the Company subsequently lowered its requested revenue requirement to $358,138,438.[12]

*Dominion's Direct Testimony*

The Company provided the direct testimony of **John R. Leimann**, a Senior Market Originator for Dominion; **Wynn B. Norris**, a Regulatory Analyst III in Dominion's Regulatory Accounting Department; and **Christopher C. Hewett**, a Regulatory Specialist in Dominion's Customer Rates Department.

**Mr. Leimann** presented: (i) a general overview of the RPS Program; (ii) an explanation of how Dominion met the 2022 RPS Program requirement and how the Company plans to meet its future annual RPS Program requirements; and (iii) support for the projected volume of RECs needed for RPS Program compliance and the forecasted price for these RECs.[13]

Mr. Leimann explained Rider RPS is designed to recover the cost of obtaining and retiring RECs to meet its RPS Program requirements. He also confirmed that Dominion met its 2022 RPS Program requirement.[14]

Mr. Leimann advised the Company will continue to meet the annual requirements of the RPS Program through the retirement of RECs that originate from eligible sources. He further explained that eligible RECs will be sourced through RECs generated from Company-owned renewable energy facilities (including the "CE Projects" and "CVOW Project"); RECs generated from facilities not owned by the Company but with whom Dominion has entered into PPAs (including the "CE PPAs"); long-term REC-only contracts; and REC market purchases. Additionally, he explained that for 2023 and 2024 Dominion intends to utilize previously banked RECs, as needed, to meet the RPS Program requirement. Similarly, he indicated that the

[7] *Id.* at 4.
[8] *Id.*
[9] *Id.*
[10] *Id.*
[11] *Id.* at 5.
[12] Supplemental Testimony Motion at 2.
[13] Ex. 3 and 3ES (Leimann Direct), at 1-2.
[14] *Id.* at 2-3.

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Company intends, when appropriate, to bank RECs generated by Dominion-owned and third-party owned Virginia facilities from 2023 and 2024 for use in 2025 when the requirement for Virginia-located resources begins. He maintained banking RECs is prudent to mitigate risks caused by delays in the development of RPS-eligible sources in the Commonwealth.[15]

Mr. Leimann estimated the Company will need approximately 12.6 million RECs during the Rate Year, with approximately 126,000 RECs required to be from DERs. At the time the Petition was filed, he anticipated Dominion would have 7.1 million banked RECs (that is, purchased RECs and RECs from Company facilities) from eligible resources that it may use for RPS Program compliance.[16]

According to Mr. Leimann, Dominion used the current market price for Virginia-eligible RECs that it intends to purchase during the Rate Year. In addition, he testified that the weighted average price of the Company's current bank of purchased RECs is $29.59/REC and forecasted the price of additional RECs that will be purchased as $30.50/REC. Additionally, he identified the Company's DER REC price assumption (based on Dominion's current DER REC bank, forward DER REC transactions, and its REC-only request for proposal) and the combined weighted average price of the current bank and forward-purchased non-DER RECs utilized for the revenue requirement (based on existing banked RECs and contracts and utilizing the REC proxy value determined in accordance with the methodology approved by the Commission in its *RPS Allocation and Proxy Value Order*).[17]

Mr. Leimann testified that Dominion determined the total cost of RECs to be recovered in this proceeding by (i) determining its projected RPS Program requirements for 2024 to ascertain the estimated volume of RECs needed during the Rate Year; (ii) projecting the volume of RECs the Company would need to use from its bank or purchase from the market; (iii) multiplying the projected volume of RECs needed to be used from its bank or purchased by a weighted average price to determine the cost of the gross purchases and banked RECs needed for the Rate Year; and (iv) applying the Virginia jurisdictional allocation factor supported by Company witness Hewett.[18]

Mr. Leimann advised that carrying costs are included for RECs retired for the Company's 2022 compliance year, and indicated he has projected carrying costs on the net balance of the Company's REC inventory as of December 2022. In addition, he testified that Dominion has not projected the change in net REC inventory balance beyond calendar year 2022.[19]

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[15] *Id.* at 3-4.

[16] *Id.* at 4.

[17] *Id.* at 4-5. *See also Commonwealth of Virginia, ex rel. State Corporation Commission, Ex Parte: Establishing a proceeding concerning the allocation of RPS-related costs and the determination of certain proxy values for Virginia Electric and Power Company*, Case No. PUR-2021-00156, Final Order (June 13, 2023) ("*RPS Allocation and Proxy Value Order*"). The specific amounts of Dominion's DER REC price assumption and combined weighted average price of the current bank and forward-purchased non-DER RECs used for the revenue requirement are identified in the extraordinarily sensitive version of Mr. Leimann's direct testimony. Ex. 3ES (Leimann Direct), at 5.

[18] Ex. 3 and 3ES (Leimann Direct), at 5.

[19] *Id.* at 6.

Mr. Leimann testified that Dominion incorporated the rate framework approved by the Commission in its *2020 Rider RPS Final Order*[20] and explained:

> Based on the framework approved by the Commission in [the *2020 Rider RPS Final Order*] for the recovery of RPS Program-related costs and benefits, the "costs" of RECs generated by the CE Projects, CE PPAs, and the CVOW Project will be recovered through the Company's Rider RPS at an established REC proxy value, while an offsetting incremental "revenue" amount will be credited to Rider CE and Rider OSW, as applicable, as if those RECs were being "sold." The REC proxy value and transfer of the REC cost from Rider CE and Rider OSW to Rider RPS will ensure that the non-bypassable costs of RPS Program compliance are recovered from all retail customers regardless of electric supplier within the limits provided in the statute.

Additionally, while he indicated the Company has only retired RECs purchased from third-parties and has not yet retired any RECs from the CE Projects or CE PPAs, Mr. Leimann clarified that Dominion has utilized the REC proxy value when determining the value of RECs banked from the CE Projects and CE PPAs.[21]

Finally, Mr. Leimann confirmed that Dominion complied with the Commission's directive in its *2020 Rider RPS Final Order* to provide information supporting its actual decisions to use, bank, and/or optimize RECs and explained:

> The decision to use, bank, and/or optimize RECs is primarily determined by (i) the total amount of RECs the Company has banked for use towards compliance; (ii) the amount of RECs eligible for RPS Program compliance otherwise available in the REC markets; and (iii) the market value of RPS-eligible RECs. All things equal, the Company will use its oldest banked RECs first in order to utilize the RPS Program's five-year banking provision. However, because of the increased standards for RPS-eligible sources, and the requirement for in-state RECs beginning in 2025, the Company intends to bank all RECs that meet the 2025 requirements, to the extent possible. Moreover, because of the increased requirement for RPS-eligible sources, to date, the Company has not optimized any RPS-eligible RECs. The Company believes it is prudent to bank any RECs (particularly RECs from in-state facilities) in excess of the compliance requirements given the annual increases in the RPS requirement

[20] *Commonwealth of Virginia, ex rel. State Corporation Commission, Ex Parte: Establishing 2020 RPS Proceeding for Virginia Electric and Power Company*, Case No. PUR-2020-00134, 2021 S.C.C. Ann. Rep. 242 ("*2020 Rider RPS Final Order*").

[21] *Id.* at 6-7. Mr. Leimann also provided a table summarizing REC proxy values for 2019 through 2022 determined based upon the methodology approved in the *RPS Allocation and Proxy Value Order*. *Id.* at 7 (Table 1).

and the need to monitor the development of future renewable resources.[22]

**Mrs. Norris** addressed development of the revenue requirement for Rider RPS for the Rate Year. Mrs. Norris confirmed that Dominion's proposed revenue requirement in this case was calculated consistently with the method used in its 2022 Rider RPS update proceeding except for the Company's use of an updated lead/lag study when making certain working capital calculations. She noted that issues related to the use of the updated lead/lag study were being litigated in Case No. PUR-2023-00094 (Dominion's Rider GV proceeding). Additionally, Mrs. Norris explained that for periods after November 18, 2021, through February 29, 2024, she calculated the RPS RAC revenue requirement using a 9.35% return on equity ("ROE") reflecting the Commission's *2021 Triennial Review Order*[23] and, likewise, utilized the capital structure methodology approved by the Commission in the *2021 Triennial Review Order*. For the period beyond February 29, 2024, she utilized an ROE of 9.7% as directed by Chapter 775 of the Virginia Acts of Assembly.[24]

Mrs. Norris testified that the revenue requirement in this proceeding includes both the Projected Cost Recovery Factor and the Actual Cost True-Up Factor. She explained that the Projected Cost Recovery Factor includes financing costs on rate base and operating income necessary for the recovery of costs of RECs purchased and utilized during the Rate Year. She explained that the Actual Cost True-Up Factor recovers from, or credits to, customers any under- or over-recovery of costs from the most recently completed calendar year. Additionally, she testified that rate base utilized in the revenue requirement calculation is comprised of the REC intangibles balance, cash working capital, and the unamortized balance of deferred costs. She also explained that carrying costs on the net balance of purchased and retired RECs for RPS Program compliance in calendar year 2022 are calculated as part of the Actual Cost True-Up Factor. Furthermore, she explained that Dominion has not projected the change in net REC intangibles balance beyond calendar year 2022 because the timing of future REC purchases and retirements cannot be determined with specificity.[25]

Mrs. Norris initially calculated the Rate Year Virginia jurisdictional Projected Cost Recovery Factor to be $374,168,527, and the Actual Cost True-Up Factor to be ($7,639,928), for a total Rate Year Virginia jurisdictional Rider RPS revenue requirement of $366,528,599. She stated that such requested Rider RPS revenue requirement represented a $270,669,813 increase from the revenue requirement currently in effect.[26]

In her supplemental direct testimony, Mrs. Norris explained that her original calculation of the Actual Cost True-Up Factor component erroneously included amortization of an Interim Correction Factor approved by the Commission in Case No. PUR-2021-00282 (the Company's 2021 Rider RPS update proceeding) for collection during the September 1, 2022 to

[22] *Id.* at 8.
[23] *Application of Virginia Electric and Power Company, For a 2021 triennial review of the rates, terms and conditions for the provision of generation, distribution and transmission services pursuant to § 56-585.1 A of the Code of Virginia*, Case No. PUR-2021-00058, 2021 S.C.C. Ann. Rep. 444 ("*2021 Triennial Review Order*").
[24] Ex. 4 (Norris Direct), at 2-3.
[25] *Id.* at 3-4.
[26] *Id.* at 4.

August 31, 2023 rate year. Because the Interim Correction Factor was intended to constitute a one-time correction to the Projected Cost Recovery Factor (associated with known under-recoveries) and did not represent an actual true-up, Mrs. Norris indicated such Interim Correction Factor should not have been amortized. She testified that with her correction, Dominion was requesting recovery of a total revenue requirement of $358,138,438 consisting of a Projected Cost Recovery Factor in the amount of $373,906,365 and an Actual Cost True-Up Factor in the amount of ($15,767,927). Additionally, she testified that the revised revenue requirement requested by the Company is approximately $8,390,161 less than the amount initially proposed by Dominion.[27]

**Mr. Hewett** supported the Company's proposed Rider RPS rates, the impact updated Rider RPS will have on customer bills, and Dominion's request for billing purposes of a rate effective date for usage on and after September 1, 2024, or the first day of the month which is at least 15 days following the date of the Commission's order approving Rider RPS.[28]

Mr. Hewett highlighted § 56-585.5 C of the Code, which provides that costs of compliance with the RPS Program shall be recovered from all retail customers in the Company's service territory as a non-bypassable charge with two exceptions: (i) accelerated renewable energy buyers ("ARBs"), who are exempt from all or a portion of the costs of the mandatory RPS Program; and (ii) customers of the Company with a peak demand in excess of 100 megawatts ("MW") in 2019 that elected to purchase electric energy from a competitive service provider ("CSP") prior to April 1, 2019 ("100 MW CSP Customers"). He also explained that while ARBs who purchase bundled capacity, energy, and RECs ("Bundled ARBs") are exempt from all costs of the mandatory RPS Program, ARBs who only purchase RECs ("REC-only ARBs") are exempt from Rider RPS, but not Rider CE or Rider PPA.[29]

Mr. Hewett provided the following explanation for how Dominion accounted for the applicable statutory requirements in its proposed allocation for Rider RPS:

> For the purpose of this filing, the Company has prepared an energy allocation factor to include the load and usage of all bundled service customers and all retail choice customers except for any certified ARBs and 100 MW CSP Customers. The Commission and the Company must annually certify ARBs by May 1. The load of any customer that was certified as Bundled ARB or REC-only ARB for the 2022 compliance year is excluded from the calculation of the allocation factor (up to any certified portion thereof). The calculation also excludes the load of 100 MW CSP Customers because, by statute, the Company must simply remove such customers from any allocation calculation. Customers taking service on Rate Schedules MBR and SCR have been included. To the extent customers on these rate schedules qualify as ARBs, this would be reflected in the allocation calculation.[30]

[27] Ex. 5 (Norris Supplemental Direct), at 1-3.
[28] Ex. 6 (Hewett Direct), at 1-2.
[29] *Id.* at 2-3. At the hearing, Mr. Hewett confirmed that Rider PPA has now been incorporated into Rider CE. Tr. (Hewett), at 25.
[30] Ex. 6 (Hewett Direct), at 3-4.

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Mr. Hewett testified that Dominion did not include a mechanism for netting the benefits of shopping customer RECs in this case. He clarified that in the *APCo RPS Plan Order*[31] the Commission directed the Company to file its proposed mechanism for netting the benefits of shopping customer RECs in a separate docket (in lieu of including such mechanism in its 2023 RPS update case) and confirmed Dominion would comply with this directive.[32]

Mr. Hewett affirmed Dominion calculated Rider RPS rates using the methodology approved by the Commission in the *RPS Allocation and Proxy Value Order*. He noted retail choice customers' usage was included in the forecast and allocation, except for the ARBs and 100 MW CSP Customers. Mr. Hewett calculated Virginia jurisdictional energy by dividing the jurisdictional sales by the total system sales excluding the North Carolina jurisdictional and North Carolina Federal Energy Regulatory Commission ("FERC") customers.[33]

Mr. Hewett calculated the proposed RPS factor of $0.004799/kilowatt-hour ("kWh"), by dividing the total Virginia jurisdictional estimated Rider RPS revenue requirement by the total estimated Virginia jurisdictional kWh sales for the Rate Year. Furthermore, he initially calculated that the proposed Rider RPS for the Rate Year will incrementally increase a residential customer's monthly bill by $3.48 compared to the current Rider RPS, based on monthly usage of 1,000 kWh.[34]

In accordance with the *RPS Allocation and Proxy Value Order*, Mr. Hewett also provided a schedule addressing cumulative bill impacts related to total non-bypassable charges (or credits) from all of the Company's pending RPS-related proceedings.[35]

In his supplemental direct testimony, Mr. Hewett incorporated the revised revenue requirement supported by Company witness Norris into his allocation and rate design schedules. He also provided updated customer bill impacts. Among other things, he testified that approval of the revised revenue requirement requested by Dominion would increase the typical residential customer's bill, based upon usage of 1,000 kWh a month, by $3.37 as compared to the current typical bill.[36]

At the hearing, Consumer Counsel asked Mr. Hewett a series of questions focusing, primarily, on the degree of the Company's proposed increase to Rider RPS rates and the

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[31] *See Petition of Appalachian Power Company, For approval of its 2023 RPS Plan under § 56-585.5 of the Code of Virginia and related requests*, Case No. PUR-2023-00001, Final Order (Sept. 7, 2023) ("*APCo RPS Plan Order*").
[32] Ex. 6 (Hewett Direct), at 4.
[33] *Id.* at 4-5.
[34] *Id.* at 5-6. Mr. Hewett's Schedule 4 also provided typical bill impacts (based upon the initial revenue requirement supported by the Company) for customers served on Residential Schedule 1; General Service Schedules GS-1, GS-2, GS-3, and GS-4; and Church Schedule 5C at various levels of consumption or demand. As explained below, Mr. Hewett slightly lowered his monthly bill impact assessments based upon a lower revenue requirement calculation in his supplemental direct testimony.
[35] *Id.* at 6 and Schedule 4.
[36] Ex. 7 (Hewett Supplemental Direct), at 1-3. Mr. Hewett's Supplemental Direct Schedule 4 also provided typical bill impacts associated with Dominion's corrected revenue requirement for customers served on Residential Schedule 1; General Service Schedules GS-1, GS-2, GS-3, and GS-4; and Church Schedule 5C at various levels of consumption.

percentage of overall customer rates that is related to VCEA compliance.[37] For example, Mr. Hewett agreed that the Company's proposed revenue requirement results in an increase in the monthly residential Rider RPS rate from the current amount of $1.32 to $3.37 (based upon usage of 1,000 kWh), thereby equating to an increase of 255%.[38] He also confirmed his supplemental Schedule 4 shows VCEA compliance charges, with the addition of the increase in Rider RPS rates proposed in this case, will constitute over 10% of a residential customer's bill.[39] Similarly, he confirmed various increases to the GS-2, GS-3, and GS-4 rate class rates associated with Dominion's updated Rider RPS and the cumulative impacts of VCEA compliance, depicted on his supplemental Schedule 4, and acknowledged that for various sample ratepayers in these rate classes, VCEA compliance charges constitute 10% of the overall bill.[40]

On redirect, Mr. Hewett agreed that Dominion filed for a large decrease to the fuel rate depicted on his supplemental Schedule 4 after his submission of supplemental testimony.[41] Additionally, he understood the Company had filed an update to its current Rider T and thought there would be a net reduction to the typical residential customer's bill.[42]

*Staff Testimony*

Staff provided the testimony of **John A. Ellis**, an Associate Public Regulation Analyst in the Commission's Division of Public Utility Regulation; **Sean M. Welsh**, a Senior Manager with the Commission's Division of Utility Accounting and Finance ("UAF"); and **Phillip M. Gereaux**, a Principal Utility Supervisor with UAF.

**Mr. Ellis** addressed the Company's proposed cost allocation and rate design methodologies and the bill impacts associated with Dominion's proposed Rider RPS charges. He also provided an overview of the Petition; described the mandatory RPS Program and the costs to be recovered by Dominion's updated RPS RAC; and summarized the Company's process for determining the REC costs to be recovered in the proposed Rate Year.[43]

Among other things, Mr. Ellis confirmed Dominion utilized the same forecasted REC price methodology that was approved in the Company's 2022 RPS RAC proceeding. He also described the Company's REC optimization process and decision process concerning the use and banking of RECs. In Mr. Ellis's assessment, Dominion's banking, sales, and purchases of RECs should be optimized to achieve RPS Program compliance in a least cost manner. Furthermore, he opined that it may be prudent for the Company to bank RPS eligible RECs exceeding current statutory requirements to ensure adequate RECs to meet future requirements (including the 75% Virginia-based REC requirement beginning in 2025). He recommended that Dominion continue to evaluate REC optimization strategies and include information regarding such strategies in its future RPS RAC filings, including current and forecasted REC prices and projections of

[37] Tr. (Hewett), at 19-32.
[38] *Id.* at 19-20.
[39] *Id.* at 26.
[40] *Id.* at 28-31.
[41] *Id.* at 33.
[42] *Id.* at 33-34.
[43] Ex. 8 (Ellis Direct), at 1-5.

Virginia-based RECs to meet the statutory 75% Virginia-based REC requirement beginning in 2025.[44]

Mr. Ellis also confirmed the Company used the REC proxy value methodology approved in the *RPS Allocation and Proxy Value Order* when determining the cost of RECs generated by Dominion-owned facilities.[45]

Mr. Ellis recognized that Dominion seeks a Virginia jurisdictional revenue requirement of $358,138,438 in this case which consists of a Projected Cost Recovery Factor of $373,906,365 and an Actual Cost True-Up Factor of $15,767,927. He also described the Company's mechanism for calculating its proposed revenue requirement and noted that its approval would result in a monthly bill increase of $3.37 for residential customers based upon usage of 1,000 kWh. Furthermore, he clarified that Dominion did not include a mechanism for netting the benefits of shopping customer RECs with the Petition given the Commission's separate directive in the *APCo RPS Plan Order* (requiring the Company to file such mechanism in a standalone docket) and noted that, consistent with this directive, Dominion has outlined its proposed mechanism for netting the benefits of shopping customer RECs in a separate pending Commission case (Case No. PUR-2024-00010).[46]

Mr. Ellis ultimately represented that Staff does not oppose the Company's proposed allocation of Rider RPS costs and its associated RPS rate calculation. If the Commission approves a revenue requirement differing from Dominion's proposal, Mr. Ellis recommended the corresponding RPS charge be adjusted proportionately.[47]

When questioned by Consumer Counsel at the hearing, Mr. Ellis clarified that the summary page to his prefiled testimony contained an inaccuracy regarding the residential impacts of Dominion's proposed Rider RPS rates. Specifically, he indicated approval of the Company's proposal results in an increase of 2.3% to a residential customer's total bill rather than just to Rider RPS.[48]

**Mr. Welsh** presented Staff's recommended RPS RAC revenue requirement for the Rate Year and Staff's assessment of the long-term revenue requirement for Rider RPS. Specifically, he supported a revenue requirement of $358.1 million, which equals the amount proposed by the Company with its supplemental direct testimony. More specifically, he recommended a Projected Cost Recovery Factor of $373.9 million and Actual Cost True-Up Factor credit of $15.8 million, resulting in a total Rate Year revenue requirement of $358.1 million.[49]

Mr. Welsh clarified that Staff included financing costs on banked RECs in its revenue requirement calculation. He also testified that Staff reviewed Dominion's projected REC

[44] *Id.* at 5-7.
[45] *Id.* at 8.
[46] *Id.* at 8-11.
[47] *Id.* at 11.
[48] Tr. (Ellis), at 37.
[49] Ex. 9 and 9ES (Welsh Direct), at 1-2. The page numbers referenced in this Report for Mr. Welsh's prefiled direct testimony are based on the actual sequence of the pages because Mr. Welsh inadvertently marked each page of his testimony as page "1" in the document that was prefiled with the Commission. *See* Tr. (Browder), at 41.



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purchases and retirements requested for recovery in the Projected Cost Recovery Factor and did not dispute the Company's projections. Furthermore, he confirmed that Staff audited Dominion's actual costs incurred and requested for recovery in the Actual Cost True-Up Factor, and does not dispute such costs.[50]

Mr. Welsh confirmed that Staff prepared a projected long-term revenue requirement associated with the RPS RAC. Such calculation included projected annual revenue requirements through 2073 and initially totaled $150.1 billion.[51] Additionally, he explained that Staff made two minor changes to the Company's long-term revenue requirement calculation for the RPS RAC. Specifically, he initially indicated Staff adjusted financing costs to reflect a 52.1% "cost of equity"[52] and assumed Dominion will retire its banked RECs for its 2025 RPS standard needs (thereby increasing financing costs but reducing REC purchases in that year). Additionally, Mr. Welsh noted that the projected long-term revenue requirement in this case is significantly greater than it was in Dominion's 2022 Rider RPS update filing. According to Mr. Welsh, the Company maintains the upward projections provided in the current case are based on market conditions at the time of the projections. In addition, he described Staff's comparison of the projections made by the Company in its 2022 Rider RPS update filing to those made in the present proceeding.[53]

Mr. Welsh also submitted supplemental testimony wherein he corrected a prior error in his calculation of the Rider RPS long-term revenue requirement. He explained that his initial long-term revenue requirement calculation inadvertently applied the jurisdictional factor twice to the projected annual revenue requirements for the years 2046 through 2073. He identified Staff's corrected long-term revenue requirement calculation as $173.4 billion.[54]

During cross-examination by Consumer Counsel, Mr. Welsh clarified that he mistakenly used the term "cost of equity" on page 4 of his prefiled testimony when he meant to use the term "equity ratio."[55] He agreed that an equity ratio of 52.1% was used as a placeholder in the calculation of the Projected Cost Recovery Factor.[56] He also agreed the projected long-term revenue requirement for Rider RPS is significantly higher in this case than it was in previous Rider RPS filings.[57] He discussed his Table 4 which compared the projected Rider RPS in the current case to what was presented in Dominion's 2022 Rider RPS filing and identified and discussed a Company discovery response reflecting that the long-term revenue requirement increase is based on updated load growth and adjustments to deficiency payment assumptions.[58]

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[50] *Id.* at 3.

[51] Mr. Welsh revised this calculation in his supplemental testimony. *See* Ex. 10 and 10ES (Welsh Supplemental Direct).

[52] As explained in more detail below, Mr. Welsh corrected this aspect of his testimony at the hearing.

[53] Ex. 9 and 9ES (Welsh Direct), at 4-6.

[54] Ex. 10 and 10ES (Welsh Supplemental Direct), at 1-2.

[55] Tr. (Welsh), at 42.

[56] *Id.* at 42-43.

[57] *Id.* at 43-44.

[58] *Id.* at 45-48. Mr. Welsh also identified apparent inconsistencies in the public and extraordinarily sensitive designations of certain information provided with his prefiled testimony. *Id.* at 48-49. With the agreement of counsel for Dominion, he clarified at the hearing that information provided on the top of the sixth page of his prefiled testimony and on page 8 of Appendix C (depicting Staff Interrogatory 5-13 and the Company's response thereto) should not have been designated as extraordinarily sensitive. *Id.*

When questioned by the Company, Mr. Welsh addressed Dominion's response to Staff Interrogatory 4-10 (attached as part of his Appendix C) wherein the Company indicated the projection of the long-term revenue requirement is impacted by the projected price of RECs and the projected quantity of RECs needed for compliance and that changes in these projections are based on market conditions.[59]

**Mr. Gereaux** addressed the capital structures and costs of capital used by the Company when developing the revenue requirement for the updated RPS RAC.[60]

After summarizing the capital structures and costs of capital used by Dominion in this case, Mr. Gereaux provided the following table identifying the capital structures and costs of capital supported by Staff (which mirror those utilized by the Company):[61]

| | Capital Structure | WACC | ROE | Effective Date |
|---|---|---|---|---|
| **True-Up Factor** | **12/31/2022** | **6.775%** | **9.35%** | **Jan. 1, 2022 - Dec. 31, 2022** |
| **Projected Factor** | **Hypothetical** | **7.052%** | **9.70%** | **Sept. 1, 2024 – Aug. 31, 2025** |

At the hearing, Mr. Gereaux clarified that the 52.1% equity ratio is based upon a stipulation agreed to in Dominion's recent biennial review case, even though Rider RPS was not specifically addressed in such stipulation.[62] He also confirmed that the 52.1% equity ratio is built into his weighted average cost of capital.[63]

*Dominion Rebuttal Letter*

In lieu of rebuttal testimony, the Company provided a letter wherein Dominion emphasized that Staff's revenue requirement recommendation is the same as the supplemental revenue requirement supported by the Company. Furthermore, Dominion represented that it did not oppose Staff's recommendation for the Company to continue evaluating REC optimization strategies, including REC banking optimization, and to provide information and analysis regarding such optimization strategies in future RPS cases.[64]

Dominion stated further:

> Accordingly, the Company respectfully requests that the Commission approve its Petition including: (i) the revenue requirement, cost allocation, rate design, and accounting treatment, as presented in the Company's supplemental direct testimony, for the Rate Year commencing September 1, 2024, for recovery of

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[59] *Id.* at 51.
[60] Ex. 11 (Gereaux Direct), at 1.
[61] *Id.* at 3.
[62] Tr. (Gereaux), at 53.
[63] *Id.* at 53-54.
[64] Ex. 12 (Dominion Rebuttal Letter), at 2.

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projected and actual costs related to compliance with the mandatory RPS Program established through the VCEA; (ii) approve the Company's proposed Rider RPS, effective for usage on and after September 1, 2024; and (iii) grant such other relief as deemed appropriate and necessary.[65]

**DISCUSSION**

*Applicable Statutory Provisions*

Section § 56-585.5 C of the Code requires Dominion to participate in an RPS Program that establishes annual goals for the sale of renewable energy to all retail customers in the utility's service territory, with certain limited exceptions. To comply with the RPS Program, the Company must procure and retire RECs originating from RPS-eligible sources. In addition, § 56-585.5 C of the Code specifies that the RPS Program requirements "shall be a percentage of the total electric energy sold in the previous calendar year" and must meet the annual targets specified in § 56-585.5 C of the Code. Section 56-585.5 C of the Code provides further:

> [Dominion] may apply renewable energy sales achieved or RECs acquired in excess of the sales requirement for that RPS Program to the sales requirements for RPS Program requirements in the year in which it was generated and the five calendar years after the renewable energy was generated or the RECs were created. To the extent that [Dominion] procures RECs for RPS Program compliance from resources the utility does not own, the utility shall be entitled to recover the costs of such certificates at its election pursuant to § 56-249.6 or subdivision A 5 d of § 56-585.1.

Additionally, § 56-585.1 A 5 of the Code states: "A utility may at any time . . . but not more than once in any 12-month period, petition the Commission for approval of one or more [RACs] for the timely and current recovery from customers of the following costs:"

> d. Projected and actual costs of compliance with renewable energy portfolio standard requirements pursuant to § 56-585.5 that are not recoverable under subdivision 6. The Commission shall approve such a petition allowing the recovery of such costs incurred as required by § 56-585.5, provided that the Commission does not otherwise find such costs were unreasonably or imprudently incurred . . . .

*Analysis*

There are no disputed issues in this case. Staff and Dominion agree that an updated Rider RPS RAC should be approved with a total Rate Year revenue requirement of $358,138,438.[66] Furthermore, although Consumer Counsel highlighted, through the cross-examination of various

[65] *Id.*

[66] *See* Tr. (Ryan), at 8 and Tr. (Ochsenhirt), at 13.

witnesses, the significant level of Dominion's proposed Rider RPS RAC increase as well as the overall percentage of ratepayer costs associated VCEA compliance, Consumer Counsel does not dispute the revenue requirement agreed to by Staff and the Company.[67] Furthermore, the agreed upon revenue requirement is supported by the evidence and consistent with statutory requirements and prior Commission directives.[68] Similarly, the Company's proposed cost allocation and rate design methodologies, which are unopposed in this proceeding, are supported by the evidence.[69] Given the foregoing, I conclude the Commission should approve the Company's proposed Rider RPS RAC, as modified in Dominion's supplemental directive testimony, effective for usage on and after September 1, 2024.[70]

I also conclude the Commission should adopt Staff's recommendation, which is unopposed by the Company, for Dominion to continue evaluating REC optimization strategies, including REC bank optimization, and to provide information and analysis regarding such optimization strategies in future RPS cases.[71]

## FINDINGS AND RECOMMENDATIONS

Based upon the evidence presented in this case, and for the reasons set forth above, I find:

1. An updated Rider RPS RAC with a total revenue requirement for the Rate Year of $358,138,438 is supported by the evidence and should be approved by the Commission;

2. The Company's proposed cost allocation and rate design methodologies are supported by the evidence and should be approved by the Commission; and

3. The Commission should direct the Company to continue evaluating REC optimization strategies, including REC banking optimization, and to provide information and analysis regarding such optimization strategies in future RPS cases.

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

1. ***ADOPTING*** the findings of this Report;

2. ***APPROVING*** the updated Rider RPS consistent with the recommendations in this Report; and

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[67] Tr. (Browder), at 10. As further acknowledged by Consumer Counsel, the cost of RPS Program compliance "is what it is." *Id.* at 56.

[68] *See, e.g.*, Ex. 3 and 3ES (Liemann Direct), at 4-8; Ex. 5 (Norris Supplemental Direct), at 1-3; Ex. 9 and 9ES (Welsh Direct), at 1-2.

[69] *See, e.g.*, Ex. 6 (Hewett Direct), at 3-5; Ex. 8 (Ellis Direct), at 11.

[70] I also recognize that future Rider RPS RAC updates will potentially be impacted by the Commission's decision in Case No. PUR-2024-00010, a pending proceeding initiated in accordance with a Commission directive in the *APCo RPS Plan Order*. *See Petition of Virginia Electric and Power Company, For determination regarding the treatment of renewable energy customers' renewable energy certificates for purposes of RPS Program compliance*, Case No. PUR-2024-00010, Order for Notice and Hearing (Feb. 5, 2024).

[71] Ex. 12 (Dominion Rebuttal Letter), at 2.

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3. ***DISMISSING*** this case from the Commission's docket of active cases.

**COMMENTS**

The parties are advised that, pursuant to Rule 5 VAC 5-20-120 C of the Commission's Rules of Practice and Procedure ("Rules") and § 12.1-31 of the Code, any comments to this Report must be filed on or before June 18, 2024. To promote administrative efficiency, the parties are encouraged to file electronically in accordance with Rule 5 VAC 5-20-140 of the Commission's Rules. 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 served by electronic mail to all counsel of record and any such party not represented by counsel.

Respectfully submitted,

A. Ann Berkebile
Chief Hearing Examiner

Document Control Center is requested to send a copy of the above Report 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, VA 23219.