

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
AT RICHMOND, JULY 25, 2024

SCC - PUBLIC OFFICE
REGULATORY CONTROL CENTER

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APPLICATION OF

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VIRGINIA ELECTRIC AND POWER COMPANY

CASE NO. PUR-2023-00195

For revision of rate adjustment clause: Rider OSW,
Coastal Virginia Offshore Wind Commercial Project,
for the Rate Year commencing September 1, 2024

FINAL ORDER

On November 1, 2023, pursuant to Code § 56-585.1 A 6, Virginia Electric and Power Company ("Dominion" or "Company") filed with the State Corporation Commission ("Commission") an annual update with respect to the Company's Rider OSW for the Coastal Virginia Offshore Wind Commercial Project ("Application").¹ Through its Application, the Company seeks to inform the Commission of the status of the Coastal Virginia Offshore Wind Commercial Project ("Project") and to provide the proposed cost allocation, rate design, and accounting treatment for service rendered during the proposed rate year commencing September 1, 2024, and extending through August 31, 2025 ("Rate Year").² As proposed, the monthly Rider OSW charge to a residential customer using 1,000 kilowatt-hours would increase by \$3.89, from \$4.74 to \$8.63, effective September 1, 2024.³

On November 21, 2023, the Commission entered an Order for Notice and Hearing in this case that, among other things, docketed this matter; directed Dominion to provide public notice of its Application; scheduled a hearing for the purpose of receiving testimony and evidence on

¹ Ex. 2 (Application) at 1.

² *Id.* at 4.

³ Report of D. Mathias Roussy, Jr., Hearing Examiner ("Report") at 1.

the Application; provided interested persons an opportunity to file comments on the Application or to participate as respondents in this proceeding; directed Commission Staff ("Staff") to investigate the Application and file testimony and exhibits containing its findings and recommendations thereon; and appointed a Hearing Examiner to conduct all further proceedings in this matter on behalf of the Commission.

Notices of participation were filed by the Virginia Committee for Fair Utility Rates ("Committee") and the Office of the Attorney General's Division of Consumer Counsel ("Consumer Counsel"). On January 24, 2024, Dominion filed a Motion for Leave to File Supplemental Direct Testimony, which was granted in a Hearing Examiner's Ruling dated March 7, 2024. Staff filed testimony on March 29, 2024.⁴ Dominion filed rebuttal testimony on April 17, 2024. The Commission received written public comments on the Application. The evidentiary hearing was convened on May 8, 2024.⁵ Counsel for Dominion, Consumer Counsel, the Committee, and Staff appeared at the hearing.

On June 4, 2024, the Report of D. Mathias Roussy, Jr., Hearing Examiner, was issued.⁶ In the Report, the Hearing Examiner made the following findings:⁷

1. The projected levelized cost of energy results in the record range between approximately \$60 and \$90 per megawatt-hour, none of which exceed the \$125 level below which Code § 56-585.1:11 C presumes costs of the Project are reasonably and prudently incurred;
2. A Rider OSW revenue requirement of \$485,932,045, for the rate year of September 1, 2024, through August 31, 2025, is supported by the record, although

⁴ Revisions to Staff's testimony were filed on April 16, 2024, and May 7, 2024.

⁵ One public witness appeared at the hearing to provide testimony on the Application. *See* Tr. 113-116.

⁶ On June 18, 2024, the Hearing Examiner issued an Errata to the Report of D. Mathias Roussy, Jr., Hearing Examiner ("Errata").

⁷ Report at 46; Errata at 1.

certain 2022 costs identified during Staff's audit should remain subject to further Commission review ("2022 Rider OSW Costs");⁸

3. Levelized cost of energy analysis alone may not indicate whether Dominion's significant plan to choose production tax credits for the Project would reduce benefits to customers compared to the selection of investment tax credits;
4. Dominion's supplemental proposals – to recognize the Project's serial commissioning in Rider OSW⁹ and reinstate a projected rate base methodology in generation rate adjustment clause ("RAC") ratemaking¹⁰ – appear reasonable, provided that the appropriate offsetting proxy value and tax credits are reflected in Rider OSW coincident with depreciation expense. The supplemental proposals should result in more accurate ratemaking projections and lower carrying costs paid by Dominion's ratepayers, but are expected to increase revenue requirements during the first few years of operations and will not prevent Rider OSW rate volatility expected from the "net of benefits" credits. Because the supplemental proposals do not affect rate year costs in this case, the Commission could defer a determination on these proposals until a future case;
5. Dominion's commitment to provide both the Virginia and Pennsylvania Tier 1 renewable energy certificate market price forecasts as well as the levelized cost of energy values calculated using both forecasts in future Rider OSW proceedings is reasonable;
6. For purposes of exempting "percentage of income payment program ("PIPP") - eligible utility customers" from paying Rider OSW, Dominion does not appear to have information about which customers are at or below 150 percent of the federal

⁸ Specifically, Staff identified \$1,475,296 of capital expenditures that Dominion included in cost categories with "external affairs," "miscellaneous outside service," and "community outreach" in their labels. Report at 26, Exs. 21, 21-ES (Fritz Direct) at 12, 15, 26; Ex. 24 (Larson Rebuttal) at 4. Staff "was not able to conclusively determine that these cost categories are free of lobbying, political donations, charitable donations, or promotional advertising costs that should not be paid for by customers." Exs. 21, 21 ES at (Fritz Direct) at 15.

⁹ As the Report explains, "Dominion seeks to incorporate in future Rider OSW rates Dominion's plan for groups of turbines to be placed in service at different times, rather than all at once [U]ntil the Project becomes operational the Rider OSW revenue requirement is largely a return on the Project's construction work in progress — an amount that will continue to grow until it is reclassified as plant-in-service. At this point, Dominion will begin to recover depreciation expense and will earn a return on its depreciated rate base. This ratemaking transition, under the current approach, would not begin until the entire Project is operational (expected by the end of 2026), whereas the supplemental approach would begin this transition piecemeal as groups of turbines are placed in service (over different months in 2026). This supplemental proposal means the recovery of depreciation expense would begin in earnest in 2026, rather than in 2027." Report at 38-39.

¹⁰ As the Report explains, "Dominion requests authority to begin projecting rate base and depreciation expense into the rate year in future Rider OSW rates and other cases going-forward, necessitating the use of a proration methodology for projecting ADIT in rate base." Report at 39, Ex. 6 (Hollett Supp. Direct) at 3.

poverty level beyond its customers who are actively participating in Dominion's PIPP; and

7. The record of the instant case does not support public witness Sierra Club's recommendation for the Commission to reconsider its prior rejection of a stipulation in Case No. PUR-2021-00142.¹¹

On June 25, 2024, Dominion, Consumer Counsel, and Staff filed comments on the Report.¹²

NOW THE COMMISSION, upon consideration of this matter, is of the opinion and finds as follows.

Hearing Examiner's Report

After analyzing the law and weighing the evidence – and providing a thorough and detailed analysis thereof – the Hearing Examiner recommended the issuance of an order that:¹³

- (1) APPROVES a Rider OSW revenue requirement of \$485,932,045, for the rate year of September 1, 2024, through August 31, 2025;
- (2) STATES that the 2022 Rider OSW Costs remain subject to further review and potential revision and DIRECTS Dominion to: (i) conduct a detailed analysis and study of the 2022 Rider OSW Costs for categories that were removed from Staff's

¹¹ See *Application of Virginia Electric and Power Company, For approval and certification of the Coastal Virginia Offshore Wind Commercial Project and Rider Offshore Wind, pursuant to § 56-585.1:11, § 56-46.1, § 56-265.1 et seq., and § 56-585.1 A 6 of the Code of Virginia*, Case No. PUR-2021-00142, 2022 S.C.C. Ann. Rept. 287, Final Order (Aug. 5, 2022); *Application of Virginia Electric and Power Company, For approval and certification of the Coastal Virginia Offshore Wind Commercial Project and Rider Offshore Wind, pursuant to § 56-585.1:11, § 56-46.1, § 56-265.1 et seq., and § 56-585.1 A 6 of the Code of Virginia*, Case No. PUR-2021-00142, 2022 S.C.C. Ann. Rep. 305, Order on Reconsideration (Dec. 15, 2022).

¹² In its Comments, Dominion requested the Commission approve the Company's supplemental ratemaking proposals for future Rider OSW filings as well as for other upcoming RAC update proceedings filed under Code § 56-585.1 A 6. See Dominion's Comments at 1-3. In its Comments, Consumer Counsel supported approval of the supplemental ratemaking proposals for future Rider OSW filings; however, Consumer Counsel did not support approval of the supplemental ratemaking proposals for use in other RACs. Specifically, Consumer Counsel asserted that Dominion did not present sufficient evidence to support approval of the modifications in RAC proceedings other than Rider OSW and requested the Commission decide the issue on a case-by-case basis. See Consumer Counsel's Comments at 2. Staff did not oppose the supplemental ratemaking proposals with respect to Rider OSW, finding that they appeared to calculate more accurate projected factors going-forward, all things remaining equal. Ex. 22 (Myers Direct) at 4-5.

¹³ Report at 47; Errata at 1.

revenue requirement as well as for additional cost categories that are of concern to Staff, and (ii) present the results of such analysis in the next Rider OSW proceeding;

- (3) FINDS Dominion's proposed cost allocation and rate design to be reasonable;
- (4) APPROVES Dominion's supplemental ratemaking proposals for application to future Rider OSW filings, provided that the appropriate offsetting proxy value and tax credits are reflected in Rider OSW coincident with depreciation expense or, alternatively, DEFERS a decision on these issues until a future Rider OSW proceeding;
- (5) DIRECTS Dominion, in any Rider OSW application(s) filed before Dominion makes its tax election, to continue to address the value to customers of the production tax credit election for the Project compared to the value to customers of the investment tax credit election;
- (6) DIRECTS Dominion to provide in future Rider OSW applications both the Virginia and Pennsylvania Tier 1 renewable energy certificate market price forecasts as well as the levelized cost of energy values calculated using both forecasts; and
- (7) DIRECTS Dominion and Staff to address in the next Rider OSW proceeding the Company's legal interpretation of the "PIPP-eligible utility customer" exemption from being charged Rider OSW, in addition to any implementation considerations associated with this statutory exemption.

Upon consideration of this matter, the Commission concludes that the Hearing Examiner's findings and recommendations are supported by the law and evidence, have a rational basis, and are adopted as set forth herein. As such, the Commission approves an updated Rider OSW with a total revenue requirement of \$485,932,045¹⁴ for the Rate Year; however, we concur with the Hearing Examiner that the 2022 Rider OSW Costs identified during Staff's audit should remain

¹⁴ The Commission expressly adopts the Report's recommendation to disallow the identified alcohol cost and this total revenue requirement figure reflects the Report's recommended removal of the associated revenue requirement impact, which is approximately \$2. Errata at 1.

subject to further review in a future Rider OSW proceeding.¹⁵ The Commission finds that Dominion's supplemental ratemaking proposals should be applied for Rider OSW.¹⁶

Accordingly, IT IS ORDERED THAT:

(1) The findings and recommendations set forth in the Hearing Examiner's Report are hereby adopted as set forth herein.

(2) The Hearing Examiner's recommendations, set forth herein, are hereby ordered.

(3) The Company forthwith shall file a revised Rider OSW and supporting workpapers with the Clerk of the Commission and submit the same to the Commission's Divisions of Public Utility Regulation and Utility Accounting and Finance, as is necessary to comply with the directives set forth in this Final Order. The Clerk of the Commission shall retain such filings for public inspection in person and on the Commission's website:

scc.virginia.gov/pages/Case-Information.

(4) The Company shall file its next Rider OSW update on or before November 1, 2024.

(5) This case is dismissed.

A COPY hereof shall be sent electronically 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 Commission.

¹⁵ See Report at 46; Errata at 1.

¹⁶ We limit our approval of Dominion's supplemental ratemaking proposals to Rider OSW. Based on the facts and circumstances in this proceeding, we do not grant approval herein of Dominion's supplemental ratemaking proposals for other upcoming RAC update proceedings. Nothing in this determination, however, prevents the Company from seeking such approval in future filings. See Dominion's Comments at 1-3.