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HOUSE BILL NO. 1153

Offered January 9, 2008

Prefiled January 9, 2008

A BILL to amend and reenact §§ 56-237 and 56-585.1 of the Code of Virginia, relating to notice of electric utility rate increases.

Patron—Phillips

Referred to Committee on Commerce and Labor

Be it enacted by the General Assembly of Virginia:

1. That §§ 56-237 and 56-585.1 of the Code of Virginia are amended and reenacted as follows:

§ 56-237. How changes in rates effected; notice required; changes to be indicated on schedules.

No change shall be made in any schedule filed pursuant to the preceding section (§ 56-236), including schedules of joint rates, except after ~~thirty~~ 30 days' notice to the Commission, in such manner as the Commission may require, and to the public, in such manner as prescribed in § 56-237.1, and all such changed rates, tolls, charges, rules, and regulations shall be plainly indicated upon existing schedules or by filing new schedules in lieu thereof not less than ~~thirty~~ 30 days prior to the time the same are to take effect; provided, that (i) the Commission may, in particular cases *not involving an electric utility*, authorize or prescribe a less time in which changes may be made; ~~and provided further that, (ii) in the case of water companies, the notice to the public shall set forth the proposed rates and charges; and (iii) in the case of electric utilities, 90 days' notice to the Commission and to the public in the manner as aforesaid shall be required prior to a change in any such rate, toll, or charge.~~

§ 56-585.1. Generation, distribution, and transmission rates after capped rates terminate or expire.

A. During the first six months of 2009, the Commission shall, after notice and opportunity for hearing, initiate proceedings to review the rates, terms and conditions for the provision of generation, distribution and transmission services of each investor-owned incumbent electric utility. Such proceedings shall be governed by the provisions of Chapter 10 (§ 56-232 et seq.) of this title, except as modified herein. In such proceedings the Commission shall determine fair rates of return on common equity applicable to the generation and distribution services of the utility. In so doing, the Commission may use any methodology to determine such return it finds consistent with the public interest, but such return shall not be set lower than the average of the returns on common equity reported to the Securities and Exchange Commission for the three most recent annual periods for which such data are available by not less than a majority, selected by the Commission as specified in subdivision 2 b, of other investor-owned electric utilities in the peer group of the utility, nor shall the Commission set such return more than 300 basis points higher than such average. The peer group of the utility shall be determined in the manner prescribed in subdivision 2 b. The Commission may increase or decrease such combined rate of return by up to 100 basis points based on the generating plant performance, customer service, and operating efficiency of a utility, as compared to nationally recognized standards determined by the Commission to be appropriate for such purposes. In such a proceeding, the Commission shall determine the rates that the utility may charge until such rates are adjusted. If the Commission finds that the utility's combined rate of return on common equity is more than 50 basis points below the combined rate of return as so determined, it shall be authorized to order increases to the utility's rates necessary to provide the opportunity to fully recover the costs of providing the utility's services and to earn not less than such combined rate of return. If the Commission finds that the utility's combined rate of return on common equity is more than 50 basis points above the combined rate of return as so determined, it shall be authorized either (i) to order reductions to the utility's rates it finds appropriate, provided that the Commission may not order such rate reduction unless it finds that the resulting rates will provide the utility with the opportunity to fully recover its costs of providing its services and to earn not less than the fair rates of return on common equity applicable to the generation and distribution services; or (ii) direct that 60 percent of the amount of the utility's earnings that were more than 50 basis points above the fair combined rate of return for calendar year 2008 be credited to customers' bills, in which event such credits shall be amortized over a period of six to 12 months, as determined at the discretion of the Commission, following the effective date of the Commission's order and be allocated among customer classes such that the relationship between the specific customer class rates of return to the overall target rate of return will have the same relationship as the last approved allocation of revenues used to design base rates. Commencing in 2011, the Commission, after notice and opportunity for hearing, shall conduct biennial reviews of the rates, terms and conditions for the provision of generation, distribution and transmission services by each investor-owned incumbent electric utility, subject to the following

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59 provisions:

60 1. Rates, terms and conditions for each service shall be reviewed separately on an unbundled basis,
61 and such reviews shall be conducted in a single, combined proceeding. The first such review shall
62 utilize the two successive 12-month test periods ending December 31, 2010. However, the Commission
63 may, in its discretion, elect to stagger its biennial reviews of utilities by utilizing the two successive
64 12-month test periods ending December 31, 2010, for a Phase I Utility, and utilizing the two successive
65 12-month test periods ending December 31, 2011, for a Phase II Utility, with subsequent proceedings
66 utilizing the two successive 12-month test periods ending December 31 immediately preceding the year
67 in which such proceeding is conducted. For purposes of this section, a Phase I Utility is an
68 investor-owned incumbent electric utility that was, as of July 1, 1999, not bound by a rate case
69 settlement adopted by the Commission that extended in its application beyond January 1, 2002, and a
70 Phase II Utility is an investor-owned incumbent electric utility that was bound by such a settlement.

71 2. Subject to the provisions of subdivision 6, fair rates of return on common equity applicable
72 separately to the generation and distribution services of such utility, and for the two such services
73 combined, shall be determined by the Commission during each such biennial review, as follows:

74 a. The Commission may use any methodology to determine such return it finds consistent with the
75 public interest, but such return shall not be set lower than the average of the returns on common equity
76 reported to the Securities and Exchange Commission for the three most recent annual periods for which
77 such data are available by not less than a majority, selected by the Commission as specified in
78 subdivision 2 b, of other investor-owned electric utilities in the peer group of the utility subject to such
79 biennial review, nor shall the Commission set such return more than 300 basis points higher than such
80 average.

81 b. In selecting such majority of peer group investor-owned electric utilities, the Commission shall
82 first remove from such group the two utilities within such group that have the lowest reported returns of
83 the group, as well as the two utilities within such group that have the highest reported returns of the
84 group, and the Commission shall then select a majority of the utilities remaining in such peer group. In
85 its final order regarding such biennial review, the Commission shall identify the utilities in such peer
86 group it selected for the calculation of such limitation. For purposes of this subdivision, an
87 investor-owned electric utility shall be deemed part of such peer group if (i) its principal operations are
88 conducted in the southeastern United States east of the Mississippi River in either the states of West
89 Virginia or Kentucky or in those states south of Virginia, excluding the state of Tennessee, (ii) it is a
90 vertically-integrated electric utility providing generation, transmission and distribution services whose
91 facilities and operations are subject to state public utility regulation in the state where its principal
92 operations are conducted, (iii) it had a long-term bond rating assigned by Moody's Investors Service of
93 at least Baa at the end of the most recent test period subject to such biennial review, and (iv) it is not
94 an affiliate of the utility subject to such biennial review.

95 c. The Commission may increase or decrease such combined rate of return by up to 100 basis points
96 based on the generating plant performance, customer service, and operating efficiency of a utility, as
97 compared to nationally recognized standards determined by the Commission to be appropriate for such
98 purposes, such action being referred to in this section as a Performance Incentive. If the Commission
99 adopts such Performance Incentive, it shall remain in effect without change until the next biennial
100 review for such utility is concluded and shall not be modified pursuant to any provision of the
101 remainder of this subsection.

102 d. In any Current Proceeding, the Commission shall determine whether the Current Return has
103 increased, on a percentage basis, above the Initial Return by more than the increase, expressed as a
104 percentage, in the United States Average Consumer Price Index for all items, all urban consumers
105 (CPI-U), as published by the Bureau of Labor Statistics of the United States Department of Labor, since
106 the date on which the Commission determined the Initial Return. If so, the Commission may conduct an
107 additional analysis of whether it is in the public interest to utilize such Current Return for the Current
108 Proceeding then pending. A finding of whether the Current Return justifies such additional analysis shall
109 be made without regard to any Performance Incentive adopted by the Commission, or any enhanced rate
110 of return on common equity awarded pursuant to the provisions of subdivision 6. Such additional
111 analysis shall include, but not be limited to, a consideration of overall economic conditions, the level of
112 interest rates and cost of capital with respect to business and industry, in general, as well as electric
113 utilities, the current level of inflation and the utility's cost of goods and services, the effect on the
114 utility's ability to provide adequate service and to attract capital if less than the Current Return were
115 utilized for the Current Proceeding then pending, and such other factors as the Commission may deem
116 relevant. If, as a result of such analysis, the Commission finds that use of the Current Return for the
117 Current Proceeding then pending would not be in the public interest, then the lower limit imposed by
118 subdivision 2 a on the return to be determined by the Commission for such utility shall be calculated,
119 for that Current Proceeding only, by increasing the Initial Return by a percentage at least equal to the
120 increase, expressed as a percentage, in the United States Average Consumer Price Index for all items, all

urban consumers (CPI-U), as published by the Bureau of Labor Statistics of the United States Department of Labor, since the date on which the Commission determined the Initial Return. For purposes of this subdivision:

"Current Proceeding" means any proceeding conducted under any provisions of this subsection that require or authorize the Commission to determine a fair combined rate of return on common equity for a utility and that will be concluded after the date on which the Commission determined the Initial Return for such utility.

"Current Return" means the minimum fair combined rate of return on common equity required for any Current Proceeding by the limitation regarding a utility's peer group specified in subdivision 2 a.

"Initial Return" means the fair combined rate of return on common equity determined for such utility by the Commission on the first occasion after July 1, 2009, under any provision of this subsection pursuant to the provisions of subdivision 2 a.

e. In addition to other considerations, in setting the return on equity within the range allowed by this section, the Commission shall strive to maintain costs of retail electric energy that are cost competitive with costs of retail electric energy provided by the other peer group investor-owned electric utilities.

f. The determination of such returns, including the determination of whether to adopt a Performance Incentive and the amount thereof, shall be made by the Commission on a stand-alone basis, and specifically without regard to any return on common equity or other matters determined with regard to facilities described in subdivision 6.

g. If the combined rate of return on common equity earned by both the generation and distribution services is no more than 50 basis points above or below the return as so determined, such combined return shall not be considered either excessive or insufficient, respectively.

h. Any amount of a utility's earnings directed by the Commission to be credited to customers' bills pursuant to this section shall not be considered for the purpose of determining the utility's earnings in any subsequent biennial review.

3. Each such utility shall make a biennial filing by March 31 of every other year, beginning in 2011, consisting of the schedules contained in the Commission's rules governing utility rate increase applications (20 VAC 5-200-30); however, if the Commission elects to stagger the dates of the biennial reviews of utilities as provided in subdivision 1, then Phase I utilities shall commence biennial filings in 2011 and Phase II utilities shall commence biennial filings in 2012. Such filing shall encompass the two successive 12-month test periods ending December 31 immediately preceding the year in which such proceeding is conducted, and in every such case the filing for each year shall be identified separately and shall be segregated from any other year encompassed by the filing. If the Commission determines that rates should be revised or credits be applied to customers' bills pursuant to subdivision 8 or 9, any rate adjustment clauses previously implemented pursuant to subdivision 4 or 5 or those related to facilities utilizing simple-cycle combustion turbines described in subdivision 6, shall be combined with the utility's costs, revenues and investments until the amounts that are the subject of such rate adjustment clauses are fully recovered. The Commission shall combine such clauses with the utility's costs, revenues and investments only after it makes its initial determination with regard to necessary rate revisions or credits to customers' bills, and the amounts thereof, but after such clauses are combined as herein specified, they shall thereafter be considered part of the utility's costs, revenues, and investments for the purposes of future biennial review proceedings. By the same date, each such utility shall also file its plan for its projected generation and transmission requirements to serve its native load for the next 10 years, including how the utility will obtain such resources, the capital requirements for providing such resources, and the anticipated sources of funding for such resources.

4. The following costs incurred by the utility shall be deemed reasonable and prudent: (i) costs for transmission services provided to the utility by the regional transmission entity of which the utility is a member, as determined under applicable rates, terms and conditions approved by the Federal Energy Regulatory Commission and (ii) costs charged to the utility that are associated with demand response programs approved by the Federal Energy Regulatory Commission and administered by the regional transmission entity of which the utility is a member. Upon petition of a utility at any time after the expiration or termination of capped rates, but not more than once in any 12-month period, the Commission shall approve a rate adjustment clause under which such costs, including, without limitation, costs for transmission service, charges for new and existing transmission facilities, administrative charges, and ancillary service charges designed to recover transmission costs, shall be recovered on a timely and current basis from customers. Retail rates to recover these costs shall be designed using the appropriate billing determinants in the retail rate schedules.

5. A utility may at any time, after the expiration or termination of capped rates, but not more than once in any 12-month period, petition the Commission for approval of one or more rate adjustment clauses for the timely and current recovery from customers of the following costs:

a. Incremental costs described in clause (vi) of subsection B of § 56-582 incurred between July 1,

182 2004, and the expiration or termination of capped rates, if such utility is, as of July 1, 2007, deferring
183 such costs consistent with an order of the Commission entered under clause (vi) of subsection B of
184 § 56-582. The Commission shall approve such a petition allowing the recovery of such costs that
185 comply with the requirements of clause (vi) of subsection B of § 56-582;

186 b. Projected and actual costs of providing incentives for the utility to design and operate fair and
187 effective demand-management, conservation, energy efficiency, and load management programs. The
188 Commission shall approve such a petition if it finds that the program is in the public interest and that
189 the need for the incentives is demonstrated with reasonable certainty; provided that the Commission
190 shall allow the recovery of such costs as it finds are reasonable;

191 c. Projected and actual costs of participation in a renewable energy portfolio standard program
192 pursuant to § 56-585.2 that are not recoverable under subdivision 6. The Commission shall approve such
193 a petition allowing the recovery of such costs as are provided for in a program approved pursuant to
194 § 56-585.2; and

195 d. Projected and actual costs of projects that the Commission finds to be necessary to comply with
196 state or federal environmental laws or regulations applicable to generation facilities used to serve the
197 utility's native load obligations. The Commission shall approve such a petition if it finds that such costs
198 are necessary to comply with such environmental laws or regulations. If the Commission determines it
199 would be just, reasonable, and in the public interest, the Commission may include the enhanced rate of
200 return on common equity prescribed in subdivision 6 in a rate adjustment clause approved hereunder for
201 a project whose purpose is to reduce the need for construction of new generation facilities by enabling
202 the continued operation of existing generation facilities. In the event the Commission includes such
203 enhanced return in such rate adjustment clause, the project that is the subject of such clause shall be
204 treated as a facility described in subdivision 6 for the purposes of this section.

205 The Commission shall have the authority to determine the duration or amortization period for any
206 adjustment clause approved under this subdivision.

207 6. To ensure a reliable and adequate supply of electricity, to meet the utility's projected native load
208 obligations and to promote economic development, a utility may at any time, after the expiration or
209 termination of capped rates, petition the Commission for approval of a rate adjustment clause for
210 recovery on a timely and current basis from customers of the costs of (i) a coal-fueled generation
211 facility that utilizes Virginia coal and is located in the coalfield region of the Commonwealth, as
212 described in § 15.2-6002, regardless of whether such facility is located within or without the utility's
213 service territory, (ii) one or more other generation facilities, or (iii) one or more major unit
214 modifications of generation facilities; however, such a petition concerning facilities described in clause
215 (ii) that utilize nuclear power, facilities described in clause (ii) that are coal-fueled and will be built by a
216 Phase I utility, or facilities described in clause (i) may also be filed before the expiration or termination
217 of capped rates. A utility that constructs any such facility shall have the right to recover the costs of the
218 facility, as accrued against income, through its rates, including projected construction work in progress,
219 and any associated allowance for funds used during construction, planning, development and
220 construction costs, life-cycle costs, and costs of infrastructure associated therewith, plus, as an incentive
221 to undertake such projects, an enhanced rate of return on common equity calculated as specified below.
222 The costs of the facility, other than return on projected construction work in progress and allowance for
223 funds used during construction, shall not be recovered prior to the date the facility begins commercial
224 operation. Such enhanced rate of return on common equity shall be applied to allowance for funds used
225 during construction and to construction work in progress during the construction phase of the facility
226 and shall thereafter be applied to the entire facility during the first portion of the service life of the
227 facility. The first portion of the service life shall be as specified in the table below; however, the
228 Commission shall determine the duration of the first portion of the service life of any facility, within the
229 range specified in the table below, which determination shall be consistent with the public interest and
230 shall reflect the Commission's determinations regarding how critical the facility may be in meeting the
231 energy needs of the citizens of the Commonwealth and the risks involved in the development of the
232 facility. After the first portion of the service life of the facility is concluded, the utility's general rate of
233 return shall be applied to such facility for the remainder of its service life. As used herein, the service
234 life of the facility shall be deemed to begin on the date the facility begins commercial operation, and
235 such service life shall be deemed equal in years to the life of that facility as used to calculate the
236 utility's depreciation expense. Such enhanced rate of return on common equity shall be calculated by
237 adding the basis points specified in the table below to the utility's general rate of return, and such
238 enhanced rate of return shall apply only to the facility that is the subject of such rate adjustment clause.
239 No change shall be made to any Performance Incentive previously adopted by the Commission in
240 implementing any rate of return under this subdivision. Allowance for funds used during construction
241 shall be calculated for any such facility utilizing the utility's actual capital structure and overall cost of
242 capital, including an enhanced rate of return on common equity as determined pursuant to this
243 subdivision, until such construction work in progress is included in rates. The construction of any

facility described in clause (i) is in the public interest, and in determining whether to approve such facility, the Commission shall liberally construe the provisions of this title. The basis points to be added to the utility's general rate of return to calculate the enhanced rate of return on common equity, and the first portion of that facility's service life to which such enhanced rate of return shall be applied, shall vary by type of facility, as specified in the following table:

Type of Generation Facility	Basis Points	First Portion of Service Life
Nuclear-powered	200	Between 12 and 25 years
Carbon capture compatible, clean-coal powered	200	Between 10 and 20 years
Renewable powered	200	Between 5 and 15 years
Conventional coal or combined-cycle combustion turbine	100	Between 10 and 20 years

Generation facilities described in clause (ii) that utilize simple-cycle combustion turbines shall not receive an enhanced rate of return on common equity as described herein, but instead shall receive the utility's general rate of return during the construction phase of the facility and, thereafter, for the entire service life of the facility.

For purposes of this subdivision, "general rate of return" means the fair combined rate of return on common equity as it is determined by the Commission from time to time for such utility pursuant to subdivision 2. In any proceeding under this subdivision conducted prior to the conclusion of the first biennial review for such utility, the Commission shall determine a general rate of return for such utility in the same manner as it would in a biennial review proceeding.

Notwithstanding any other provision of this subdivision, if the Commission finds during the biennial review conducted for a Phase II utility in 2018 that such utility has not filed applications for all necessary federal and state regulatory approvals to construct one or more nuclear-powered or coal-fueled generation facilities that would add a total capacity of at least 1500 megawatts to the amount of the utility's generating resources as such resources existed on July 1, 2007, or that, if all such approvals have been received, that the utility has not made reasonable and good faith efforts to construct one or more such facilities that will provide such additional total capacity within a reasonable time after obtaining such approvals, then the Commission, if it finds it in the public interest, may reduce on a prospective basis any enhanced rate of return on common equity previously applied to any such facility to no less than the general rate of return for such utility and may apply no less than the utility's general rate of return to any such facility for which the utility seeks approval in the future under this subdivision.

7. Any petition filed pursuant to subdivision 4, 5 or 6 shall be considered by the Commission on a stand-alone basis without regard to the other costs, revenues, investments, or earnings of the utility. Any costs incurred by a utility prior to the filing of such petition, or during the consideration thereof by the Commission, that are proposed for recovery in such petition and that are related to clause (a) of subdivision 5, or that are related to facilities and projects described in clause (i) of subdivision 6, shall be deferred on the books and records of the utility until the Commission's final order in the matter, or until the implementation of any applicable approved rate adjustment clauses, whichever is later. Any costs prudently incurred on or after July 1, 2007, by a utility prior to the filing of such petition, or during the consideration thereof by the Commission, that are proposed for recovery in such petition and that are related to facilities and projects described in clause (ii) of subdivision 6 that utilize nuclear power, or coal-fueled facilities and projects described in clause (ii) of subdivision 6 if such coal-fueled facilities will be built by a Phase I Utility, shall be deferred on the books and records of the utility until the Commission's final order in the matter, or until the implementation of any applicable approved rate adjustment clauses, whichever is later. Any costs prudently incurred after the expiration or termination of capped rates related to other matters described in subdivisions 4, 5 or 6 shall be deferred beginning only upon the expiration or termination of capped rates, provided, however, that no provision of this act shall affect the rights of any parties with respect to the rulings of the Federal Energy Regulatory Commission in PJM Interconnection LLC and Virginia Electric and Power Company, 109 F.E.R.C. P 61,012 (2004). The Commission's final order regarding any petition filed pursuant to subdivision 4, 5 or 6 shall be entered not more than three months, eight months, and nine months, respectively, after the date of filing of such petition. If such petition is approved, the order shall direct that the applicable rate adjustment clause be applied to customers' bills not more than 60 days after the date of the order, or upon the expiration or termination of capped rates, whichever is later.

8. If the Commission determines as a result of such biennial review that:

(i) The utility has, during the test period or periods under review, considered as a whole, earned more than 50 basis points below a fair combined rate of return on both its generation and distribution services, as determined in subdivision 2, without regard to any return on common equity or other

305 matters determined with respect to facilities described in subdivision 6, the Commission shall order
306 increases to the utility's rates necessary to provide the opportunity to fully recover the costs of providing
307 the utility's services and to earn not less than such fair combined rate of return, using the most recently
308 ended 12-month test period as the basis for determining the amount of the rate increase necessary.
309 However, the Commission may not order such rate increase unless it finds that the resulting rates will
310 provide the utility with the opportunity to fully recover its costs of providing its services and to earn not
311 less than a fair combined rate of return on both its generation and distribution services, as determined in
312 subdivision 2, without regard to any return on common equity or other matters determined with respect
313 to facilities described in subdivision 6, using the most recently ended 12-month test period as the basis
314 for determining the permissibility of any rate increase under the standards of this sentence, and the
315 amount thereof;

316 (ii) The utility has, during the test period or test periods under review, considered as a whole, earned
317 more than 50 basis points above a fair combined rate of return on both its generation and distribution
318 services, as determined in subdivision 2, without regard to any return on common equity or other
319 matters determined with respect to facilities described in subdivision 6, the Commission shall, subject to
320 the provisions of subdivision 9, direct that 60 percent of the amount of such earnings that were more
321 than 50 basis points above such fair combined rate of return for the test period or periods under review,
322 considered as a whole, shall be credited to customers' bills. Any such credits shall be amortized over a
323 period of six to 12 months, as determined at the discretion of the Commission, following the effective
324 date of the Commission's order, and shall be allocated among customer classes such that the relationship
325 between the specific customer class rates of return to the overall target rate of return will have the same
326 relationship as the last approved allocation of revenues used to design base rates; or

327 (iii) Such biennial review is the second consecutive biennial review in which the utility has, during
328 the test period or test periods under review, considered as a whole, earned more than 50 basis points
329 above a fair combined rate of return on both its generation and distribution services, as determined in
330 subdivision 2, without regard to any return on common equity or other matter determined with respect
331 to facilities described in subdivision 6, the Commission shall, subject to the provisions of subdivision 9
332 and in addition to the actions authorized in clause (ii) of this subdivision, also order reductions to the
333 utility's rates it finds appropriate. However, the Commission may not order such rate reduction unless it
334 finds that the resulting rates will provide the utility with the opportunity to fully recover its costs of
335 providing its services and to earn not less than a fair combined rate of return on both its generation and
336 distribution services, as determined in subdivision 2, without regard to any return on common equity or
337 other matters determined with respect to facilities described in subdivision 6, using the most recently
338 ended 12-month test period as the basis for determining the permissibility of any rate reduction under
339 the standards of this sentence, and the amount thereof.

340 The Commission's final order regarding such biennial review shall be entered not more than nine
341 months after the end of the test period, and any revisions in rates or credits so ordered shall take effect
342 not more than 60 days after the date of the order.

343 9. If, as a result of a biennial review required under this subsection and conducted with respect to
344 any test period or periods under review ending later than December 31, 2010 (or, if the Commission has
345 elected to stagger its biennial reviews of utilities as provided in subdivision 1, under review ending later
346 than December 31, 2010, for a Phase I Utility, or December 31, 2011, for a Phase II Utility), the
347 Commission finds, with respect to such test period or periods considered as a whole, that (i) any utility
348 has, during the test period or periods under review, considered as a whole, earned more than 50 basis
349 points above a fair combined rate of return on both its generation and distribution services, as
350 determined in subdivision 2, without regard to any return on common equity or other matters determined
351 with respect to facilities described in subdivision 6, and (ii) the total aggregate regulated rates of such
352 utility at the end of the most recently-ended 12-month test period exceeded the annual increases in the
353 United States Average Consumer Price Index for all items, all urban consumers (CPI-U), as published
354 by the Bureau of Labor Statistics of the United States Department of Labor, compounded annually,
355 when compared to the total aggregate regulated rates of such utility as determined pursuant to the
356 biennial review conducted for the base period, the Commission shall, unless it finds that such action is
357 not in the public interest or that the provisions of clauses (ii) and (iii) of subdivision 8 are more
358 consistent with the public interest, direct that any or all earnings for such test period or periods under
359 review, considered as a whole that were more than 50 basis points above such fair combined rate of
360 return shall be credited to customers' bills, in lieu of the provisions of clauses (ii) and (iii) of
361 subdivision 8. Any such credits shall be amortized and allocated among customer classes in the manner
362 provided by clause (ii) of subdivision 8. For purposes of this subdivision:

363 "Base period" means (i) the test period ending December 31, 2010 (or, if the Commission has elected
364 to stagger its biennial reviews of utilities as provided in subdivision 1, the test period ending December
365 31, 2010, for a Phase I Utility, or December 31, 2011, for a Phase II Utility), or (ii) the most recent test
366 period with respect to which credits have been applied to customers' bills under the provisions of this

subdivision, whichever is later.

"Total aggregate regulated rates" shall include: (i) fuel tariffs approved pursuant to § 56-249.6, except for any increases in fuel tariffs deferred by the Commission for recovery in periods after December 31, 2010, pursuant to the provisions of clause (ii) of subsection C of § 56-249.6; (ii) rate adjustment clauses implemented pursuant to subdivision 4 or 5; (iii) revisions to the utility's rates pursuant to clause (i) of subdivision 8; (iv) revisions to the utility's rates pursuant to the Commission's rules governing utility rate increase applications (20 VAC 5-200-30), as permitted by subsection B, occurring after July 1, 2009; and (v) base rates in effect as of July 1, 2009.

10. For purposes of this section, the Commission shall regulate the rates, terms and conditions of any utility subject to this section on a stand-alone basis utilizing the actual end-of-test period capital structure and cost of capital of such utility, unless the Commission finds that the debt to equity ratio of such capital structure is unreasonable for such utility, in which case the Commission may utilize a debt to equity ratio that it finds to be reasonable for such utility in determining any rate adjustment pursuant to clauses (i) and (iii) of subdivision 8, and without regard to the cost of capital, capital structure, revenues, expenses or investments of any other entity with which such utility may be affiliated. In particular, and without limitation, the Commission shall determine the federal and state income tax costs for any such utility that is part of a publicly traded, consolidated group as follows: (i) such utility's apportioned state income tax costs shall be calculated according to the applicable statutory rate, as if the utility had not filed a consolidated return with its affiliates, and (ii) such utility's federal income tax costs shall be calculated according to the applicable federal income tax rate and shall exclude any consolidated tax liability or benefit adjustments originating from any taxable income or loss of its affiliates.

B. Nothing in this section shall preclude an investor-owned incumbent electric utility from applying for an increase in rates pursuant to § 56-245 or the Commission's rules governing utility rate increase applications (20 VAC 5-200-30); however, in any such filing, a fair rate of return on common equity shall be determined pursuant to subdivision 2. Nothing in this section shall preclude such utility's recovery of fuel and purchased power costs as provided in § 56-249.6.

C. Except as otherwise provided in this section, the Commission shall exercise authority over the rates, terms and conditions of investor-owned incumbent electric utilities for the provision of generation, transmission and distribution services to retail customers in the Commonwealth pursuant to the provisions of Chapter 10 (§ 56-232 et seq.) of this title, including specifically § 56-235.2.

D. Nothing in this section shall preclude the Commission from determining, during any proceeding authorized or required by this section, the reasonableness or prudence of any cost incurred or projected to be incurred, by a utility in connection with the subject of the proceeding. A determination of the Commission regarding the reasonableness or prudence of any such cost shall be consistent with the Commission's authority to determine the reasonableness or prudence of costs in proceedings pursuant to the provisions of Chapter 10 (§ 56-232 et seq.) of this title.

E. Notwithstanding any provision of this chapter to the contrary, an increase in any rate, toll, or charge of an investor-owned incumbent electric utility shall not be effective until the utility has complied with the requirements of § 56-237.

F. The Commission shall promulgate such rules and regulations as may be necessary to implement the provisions of this section.