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## HOUSE BILL NO. 2506

## AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by the Joint Conference Committee  
on February 28, 2009)

(Patron Prior to Substitute—Delegate Pollard)

A BILL to amend and reenact §§ 56-576, 56-585.1, and 56-585.3 of the Code of Virginia, relating to base rates of return for certain types of electrical generation.

**Be it enacted by the General Assembly of Virginia:**

**1. That §§ 56-576, 56-585.1, and 56-585.3 of the Code of Virginia are amended and reenacted as follows:**

§ 56-576. Definitions.

As used in this chapter:

"Affiliate" means any person that controls, is controlled by, or is under common control with an electric utility.

"Aggregator" means a person that, as an agent or intermediary, (i) offers to purchase, or purchases, electric energy or (ii) offers to arrange for, or arranges for, the purchase of electric energy, for sale to, or on behalf of, two or more retail customers not controlled by or under common control with such person. The following activities shall not, in and of themselves, make a person an aggregator under this chapter: (i) furnishing legal services to two or more retail customers, suppliers or aggregators; (ii) furnishing educational, informational, or analytical services to two or more retail customers, unless direct or indirect compensation for such services is paid by an aggregator or supplier of electric energy; (iii) furnishing educational, informational, or analytical services to two or more suppliers or aggregators; (iv) providing default service under § 56-585; (v) engaging in activities of a retail electric energy supplier, licensed pursuant to § 56-587, which are authorized by such supplier's license; and (vi) engaging in actions of a retail customer, in common with one or more other such retail customers, to issue a request for proposal or to negotiate a purchase of electric energy for consumption by such retail customers.

"Combined heat and power" means a method of using waste heat from electrical generation to offset traditional processes, space heating, air conditioning, or refrigeration.

"Commission" means the State Corporation Commission.

"Cooperative" means a utility formed under or subject to Chapter 9.1 (§ 56-231.15 et seq.) of this title.

"Covered entity" means a provider in the Commonwealth of an electric service not subject to competition but shall not include default service providers.

"Covered transaction" means an acquisition, merger, or consolidation of, or other transaction involving stock, securities, voting interests or assets by which one or more persons obtains control of a covered entity.

"Curtailment" means inducing retail customers to reduce load during times of peak demand so as to ease the burden on the electrical grid.

"Customer choice" means the opportunity for a retail customer in the Commonwealth to purchase electric energy from any supplier licensed and seeking to sell electric energy to that customer.

"Demand response" means measures aimed at shifting time of use of electricity from peak-use periods to times of lower demand by inducing retail customers to curtail electricity usage during periods of congestion and higher prices in the electrical grid.

"Distribute," "distributing," or "distribution of" electric energy means the transfer of electric energy through a retail distribution system to a retail customer.

"Distributor" means a person owning, controlling, or operating a retail distribution system to provide electric energy directly to retail customers.

"Electric utility" means any person that generates, transmits, or distributes electric energy for use by retail customers in the Commonwealth, including any investor-owned electric utility, cooperative electric utility, or electric utility owned or operated by a municipality.

"Energy efficiency program" means a program that reduces the total amount of electricity that is required for the same process or activity implemented after the expiration of capped rates. Energy efficiency programs include equipment, physical, or program change designed to produce measured and verified reductions in the amount of electricity required to perform the same function and produce the same or a similar outcome. Energy efficiency programs may include, but are not limited to, (i) programs that result in improvements in lighting design, heating, ventilation, and air conditioning systems, appliances, building envelopes, and industrial and commercial processes; and (ii) measures, such as but not limited to the installation of advanced meters, implemented or installed by utilities, that reduce fuel use or losses of electricity and otherwise improve internal operating efficiency in generation,

60 *transmission, and distribution systems. Energy efficiency programs include demand response, combined*  
61 *heat and power and waste heat recovery, curtailment, or other programs that are designed to reduce*  
62 *electricity consumption so long as they reduce the total amount of electricity that is required for the*  
63 *same process or activity. Utilities shall be authorized to install and operate such advanced metering*  
64 *technology and equipment on a customer's premises; however, nothing in this chapter establishes a*  
65 *requirement that an energy efficiency program be implemented on a customer's premises and be*  
66 *connected to a customer's wiring on the customer's side of the inter-connection without the customer's*  
67 *expressed consent.*

68 "Generate," "generating," or "generation of" electric energy means the production of electric energy.

69 "Generator" means a person owning, controlling, or operating a facility that produces electric energy  
70 for sale.

71 "Incumbent electric utility" means each electric utility in the Commonwealth that, prior to July 1,  
72 1999, supplied electric energy to retail customers located in an exclusive service territory established by  
73 the Commission.

74 "Independent system operator" means a person that may receive or has received, by transfer pursuant  
75 to this chapter, any ownership or control of, or any responsibility to operate, all or part of the  
76 transmission systems in the Commonwealth.

77 "Measured and verified" means a process determined pursuant to methods accepted for use by  
78 utilities and industries to measure, verify, and validate energy savings and peak demand savings. This  
79 may include the protocol established by the United States Department of Energy, Office of Federal  
80 Energy Management Programs, Measurement and Verification Guidance for Federal Energy Projects,  
81 measurement and verification standards developed by the American Society of Heating, Refrigeration  
82 and Air Conditioning Engineers (ASHRAE), or engineering-based estimates of energy and demand  
83 savings associated with specific energy efficiency measures, as determined by the Commission.

84 "Municipality" means a city, county, town, authority, or other political subdivision of the  
85 Commonwealth.

86 "Peak-shaving" means measures aimed solely at shifting time of use of electricity from peak-use  
87 periods to times of lower demand by inducing retail customers to curtail electricity usage during periods  
88 of congestion and higher prices in the electrical grid.

89 "Person" means any individual, corporation, partnership, association, company, business, trust, joint  
90 venture, or other private legal entity, and the Commonwealth or any municipality.

91 "Renewable energy" means energy derived from sunlight, wind, falling water, sustainable biomass,  
92 energy from waste, municipal solid waste, wave motion, tides, and geothermal power, and does not  
93 include energy derived from coal, oil, natural gas or nuclear power.

94 "Retail customer" means any person that purchases retail electric energy for its own consumption at  
95 one or more metering points or nonmetered points of delivery located in the Commonwealth.

96 "Retail electric energy" means electric energy sold for ultimate consumption to a retail customer.

97 "Revenue reductions related to energy efficiency programs" means reductions in the collection of  
98 total non-fuel revenues, previously authorized by the Commission to be recovered from customers by a  
99 utility, that occur due to measured and verified decreased consumption of electricity caused by energy  
100 efficiency programs approved by the Commission and implemented by the utility, less the amount by  
101 which such non-fuel reductions in total revenues have been mitigated through other program-related  
102 factors, including reductions in variable operating expenses.

103 "Supplier" means any generator, distributor, aggregator, broker, marketer, or other person who offers  
104 to sell or sells electric energy to retail customers and is licensed by the Commission to do so, but it  
105 does not mean a generator that produces electric energy exclusively for its own consumption or the  
106 consumption of an affiliate.

107 "Supply" or "supplying" electric energy means the sale of or the offer to sell electric energy to a  
108 retail customer.

109 "Transmission of," "transmit," or "transmitting" electric energy means the transfer of electric energy  
110 through the Commonwealth's interconnected transmission grid from a generator to either a distributor or  
111 a retail customer.

112 "Transmission system" means those facilities and equipment that are required to provide for the  
113 transmission of electric energy.

114 § 56-585.1. Generation, distribution, and transmission rates after capped rates terminate or expire.

115 A. During the first six months of 2009, the Commission shall, after notice and opportunity for  
116 hearing, initiate proceedings to review the rates, terms and conditions for the provision of generation,  
117 distribution and transmission services of each investor-owned incumbent electric utility. Such  
118 proceedings shall be governed by the provisions of Chapter 10 (§ 56-232 et seq.) of this title, except as  
119 modified herein. In such proceedings the Commission shall determine fair rates of return on common  
120 equity applicable to the generation and distribution services of the utility. In so doing, the Commission  
121 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 provisions:

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

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

a. 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 subject to such biennial review, nor shall the Commission set such return more than 300 basis points higher than such average.

b. In selecting such majority of peer group investor-owned electric utilities, the Commission shall first remove from such group the two utilities within such group that have the lowest reported returns of the group, as well as the two utilities within such group that have the highest reported returns of the group, and the Commission shall then select a majority of the utilities remaining in such peer group. In its final order regarding such biennial review, the Commission shall identify the utilities in such peer group it selected for the calculation of such limitation. For purposes of this subdivision, an investor-owned electric utility shall be deemed part of such peer group if (i) its principal operations are conducted in the southeastern United States east of the Mississippi River in either the states of West Virginia or Kentucky or in those states south of Virginia, excluding the state of Tennessee, (ii) it is a vertically-integrated electric utility providing generation, transmission and distribution services whose facilities and operations are subject to state public utility regulation in the state where its principal

183 operations are conducted, (iii) it had a long-term bond rating assigned by Moody's Investors Service of  
184 at least Baa at the end of the most recent test period subject to such biennial review, and (iv) it is not  
185 an affiliate of the utility subject to such biennial review.

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

193 d. In any Current Proceeding, the Commission shall determine whether the Current Return has  
194 increased, on a percentage basis, above the Initial Return by more than the increase, expressed as a  
195 percentage, in the United States Average Consumer Price Index for all items, all urban consumers  
196 (CPI-U), as published by the Bureau of Labor Statistics of the United States Department of Labor, since  
197 the date on which the Commission determined the Initial Return. If so, the Commission may conduct an  
198 additional analysis of whether it is in the public interest to utilize such Current Return for the Current  
199 Proceeding then pending. A finding of whether the Current Return justifies such additional analysis shall  
200 be made without regard to any Performance Incentive adopted by the Commission, or any enhanced rate  
201 of return on common equity awarded pursuant to the provisions of subdivision 6. Such additional  
202 analysis shall include, but not be limited to, a consideration of overall economic conditions, the level of  
203 interest rates and cost of capital with respect to business and industry, in general, as well as electric  
204 utilities, the current level of inflation and the utility's cost of goods and services, the effect on the  
205 utility's ability to provide adequate service and to attract capital if less than the Current Return were  
206 utilized for the Current Proceeding then pending, and such other factors as the Commission may deem  
207 relevant. If, as a result of such analysis, the Commission finds that use of the Current Return for the  
208 Current Proceeding then pending would not be in the public interest, then the lower limit imposed by  
209 subdivision 2 a on the return to be determined by the Commission for such utility shall be calculated,  
210 for that Current Proceeding only, by increasing the Initial Return by a percentage at least equal to the  
211 increase, expressed as a percentage, in the United States Average Consumer Price Index for all items, all  
212 urban consumers (CPI-U), as published by the Bureau of Labor Statistics of the United States  
213 Department of Labor, since the date on which the Commission determined the Initial Return. For  
214 purposes of this subdivision:

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

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

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

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

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

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

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

237 3. Each such utility shall make a biennial filing by March 31 of every other year, beginning in 2011,  
238 consisting of the schedules contained in the Commission's rules governing utility rate increase  
239 applications (20 VAC 5-200-30); however, if the Commission elects to stagger the dates of the biennial  
240 reviews of utilities as provided in subdivision 1, then Phase I utilities shall commence biennial filings in  
241 2011 and Phase II utilities shall commence biennial filings in 2012. Such filing shall encompass the two  
242 successive 12-month test periods ending December 31 immediately preceding the year in which such  
243 proceeding is conducted, and in every such case the filing for each year shall be identified separately  
244 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.

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

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

c. *Projected and actual costs for the utility to design, implement, and operate energy efficiency programs, including a margin to be recovered on operating expenses, which margin for the purposes of this section shall be equal to the general rate of return on common equity determined as described in subdivision A 2 of this section. The Commission shall only approve such a petition if it finds that the program is in the public interest. As part of such cost recovery, the Commission, if requested by the utility, shall allow for the recovery of revenue reductions related to energy efficiency programs. The Commission shall only allow such recovery to the extent that the Commission determines such revenue has not been recovered through margins from incremental off-system sales as defined in § 56-249.6 that are directly attributable to energy efficiency programs.*

*None of the costs of new energy efficiency programs of an electric utility, including recovery of revenue reductions, shall be assigned to any customer that has a verifiable history of having used more than 10 megawatts of demand from a single meter of delivery. Nor shall any of the costs of new energy efficiency programs of an electric utility, including recovery of revenue reductions, be incurred by any large general service customer as defined herein that has notified the utility of non-participation in such energy efficiency program or programs. A large general service customer is a customer that has a verifiable history of having used more than 500 kilowatts of demand from a single meter of delivery. Non-participation in energy efficiency programs shall be allowed by the Commission if the large general service customer has, at the customer's own expense, implemented energy efficiency programs that have produced or will produce measured and verified results consistent with industry standards and other regulatory criteria stated in this section. The Commission shall, no later than November 15, 2009, promulgate rules and regulations to accommodate the process under which such large general service customers shall file notice for such an exemption and (i) establish the administrative procedures by which eligible customers will notify the utility and (ii) define the standard criteria that must be satisfied by an applicant in order to notify the utility. In promulgating such rules and regulations, the Commission may also specify the timing as to when a utility shall accept and act on such notice, taking into consideration the utility's integrated resource planning process as well as its administration of energy efficiency programs that are approved for cost recovery by the Commission. The notice of*

306 *non-participation by a large general service customer, to be given by March 1 of a given year, shall be*  
307 *for the duration of the service life of the customer's energy efficiency program. The Commission on its*  
308 *own motion may initiate steps necessary to verify such non-participants' achievement of energy efficiency*  
309 *if the Commission has a body of evidence that the non-participant has knowingly misrepresented its*  
310 *energy efficiency achievement. A utility shall not charge such large general service customer, as defined*  
311 *by the Commission, for the costs of installing energy efficiency equipment beyond what is required to*  
312 *provide electric service and meter such service on the customer's premises if the customer provides, at*  
313 *the customer's expense, equivalent energy efficiency equipment. In all relevant proceedings pursuant to*  
314 *this section, the Commission shall take into consideration the goal of economic development in the*  
315 *Commonwealth.*

316 *d. Projected and actual costs of participation in a renewable energy portfolio standard program*  
317 *pursuant to § 56-585.2 that are not recoverable under subdivision 6. The Commission shall approve such*  
318 *a petition allowing the recovery of such costs as are provided for in a program approved pursuant to*  
319 *§ 56-585.2; and*

320 *¶ e. Projected and actual costs of projects that the Commission finds to be necessary to comply with*  
321 *state or federal environmental laws or regulations applicable to generation facilities used to serve the*  
322 *utility's native load obligations. The Commission shall approve such a petition if it finds that such costs*  
323 *are necessary to comply with such environmental laws or regulations. If the Commission determines it*  
324 *would be just, reasonable, and in the public interest, the Commission may include the enhanced rate of*  
325 *return on common equity prescribed in subdivision 6 in a rate adjustment clause approved hereunder for*  
326 *a project whose purpose is to reduce the need for construction of new generation facilities by enabling*  
327 *the continued operation of existing generation facilities. In the event the Commission includes such*  
328 *enhanced return in such rate adjustment clause, the project that is the subject of such clause shall be*  
329 *treated as a facility described in subdivision 6 for the purposes of this section.*

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

332 *6. To ensure a reliable and adequate supply of electricity, to meet the utility's projected native load*  
333 *obligations and to promote economic development, a utility may at any time, after the expiration or*  
334 *termination of capped rates, petition the Commission for approval of a rate adjustment clause for*  
335 *recovery on a timely and current basis from customers of the costs of (i) a coal-fueled generation*  
336 *facility that utilizes Virginia coal and is located in the coalfield region of the Commonwealth, as*  
337 *described in § 15.2-6002, regardless of whether such facility is located within or without the utility's*  
338 *service territory, (ii) one or more other generation facilities, or (iii) one or more major unit*  
339 *modifications of generation facilities; however, such a petition concerning facilities described in clause*  
340 *(ii) that utilize nuclear power, facilities described in clause (ii) that are coal-fueled and will be built by a*  
341 *Phase I utility, or facilities described in clause (i) may also be filed before the expiration or termination*  
342 *of capped rates. A utility that constructs any such facility shall have the right to recover the costs of the*  
343 *facility, as accrued against income, through its rates, including projected construction work in progress,*  
344 *and any associated allowance for funds used during construction, planning, development and*  
345 *construction costs, life-cycle costs, and costs of infrastructure associated therewith, plus, as an incentive*  
346 *to undertake such projects, an enhanced rate of return on common equity calculated as specified below.*  
347 *The costs of the facility, other than return on projected construction work in progress and allowance for*  
348 *funds used during construction, shall not be recovered prior to the date the facility begins commercial*  
349 *operation. Such enhanced rate of return on common equity shall be applied to allowance for funds used*  
350 *during construction and to construction work in progress during the construction phase of the facility*  
351 *and shall thereafter be applied to the entire facility during the first portion of the service life of the*  
352 *facility. The first portion of the service life shall be as specified in the table below; however, the*  
353 *Commission shall determine the duration of the first portion of the service life of any facility, within the*  
354 *range specified in the table below, which determination shall be consistent with the public interest and*  
355 *shall reflect the Commission's determinations regarding how critical the facility may be in meeting the*  
356 *energy needs of the citizens of the Commonwealth and the risks involved in the development of the*  
357 *facility. After the first portion of the service life of the facility is concluded, the utility's general rate of*  
358 *return shall be applied to such facility for the remainder of its service life. As used herein, the service*  
359 *life of the facility shall be deemed to begin on the date the facility begins commercial operation, and*  
360 *such service life shall be deemed equal in years to the life of that facility as used to calculate the*  
361 *utility's depreciation expense. Such enhanced rate of return on common equity shall be calculated by*  
362 *adding the basis points specified in the table below to the utility's general rate of return, and such*  
363 *enhanced rate of return shall apply only to the facility that is the subject of such rate adjustment clause.*  
364 *No change shall be made to any Performance Incentive previously adopted by the Commission in*  
365 *implementing any rate of return under this subdivision. Allowance for funds used during construction*  
366 *shall be calculated for any such facility utilizing the utility's actual capital structure and overall cost of*  
367 *capital, including an enhanced rate of return on common equity as determined pursuant to this*

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

429 matters determined with respect to facilities described in subdivision 6, the Commission shall order  
430 increases to the utility's rates necessary to provide the opportunity to fully recover the costs of providing  
431 the utility's services and to earn not less than such fair combined rate of return, using the most recently  
432 ended 12-month test period as the basis for determining the amount of the rate increase necessary.  
433 However, the Commission may not order such rate increase unless it finds that the resulting rates will  
434 provide the utility with the opportunity to fully recover its costs of providing its services and to earn not  
435 less than a fair combined rate of return on both its generation and distribution services, as determined in  
436 subdivision 2, without regard to any return on common equity or other matters determined with respect  
437 to facilities described in subdivision 6, using the most recently ended 12-month test period as the basis  
438 for determining the permissibility of any rate increase under the standards of this sentence, and the  
439 amount thereof;

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

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

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

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

487 "Base period" means (i) the test period ending December 31, 2010 (or, if the Commission has elected  
488 to stagger its biennial reviews of utilities as provided in subdivision 1, the test period ending December  
489 31, 2010, for a Phase I Utility, or December 31, 2011, for a Phase II Utility), or (ii) the most recent test  
490 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. The Commission shall promulgate such rules and regulations as may be necessary to implement the provisions of this section.

§ 56-585.3. Regulation of cooperative rates after rate caps.

After the expiration or termination of capped rates, the rates, terms and conditions of distribution electric cooperatives subject to Article 1 (§ 56-231.15 et seq.) of Chapter 9.1 of this title shall be regulated in accordance with the provisions of Chapters 9.1 (§ 56-231.15 et seq.) and 10 (§ 56-232 et seq.) of this title, as modified by the following provisions:

1. Except for energy related cost (fuel cost), the Commission shall not require any cooperative to adjust, modify, or revise its rates, by means of riders or otherwise, to reflect changes in wholesale power cost which occurred during the capped rate period, other than in a general rate proceeding.

2. Each cooperative may, without Commission approval or the requirement of any filing other than as provided in this subdivision, upon an affirmative resolution of its board of directors, increase or decrease all classes of its rates for distribution services at any time, provided, however, that such adjustments will not effect a cumulative net increase or decrease in excess of 5 percent in such rates in any three year period. Such adjustments will not affect or be limited by any existing fuel or wholesale power cost adjustment provisions. The cooperative will promptly file any such revised rates with the Commission for informational purposes.

3. Each cooperative may, without Commission approval, upon an affirmative resolution of its board of directors, make any adjustment to its terms and conditions that does not affect the cooperative's revenues from the distribution or supply of electric energy. In addition, a cooperative may make such adjustments to any pass-through of third-party service charges and fees, and to any fees, charges and deposits set out in Schedule F of such cooperative's Terms and Conditions filed as of January 1, 2007. The cooperative will promptly file any such amended terms and conditions with the Commission for informational purposes.

552 4. A cooperative may, at any time after the expiration or termination of capped rates, petition the  
553 Commission for approval of one or more rate adjustment clauses for the timely and current recovery  
554 from customers of the costs described in subdivisions A 5 b and d e of § 56-585.1.

555 5. None of the adjustments described in subdivisions 2 through 4 will apply to the rates paid by any  
556 customer that takes service by means of dedicated distribution facilities and had noncoincident peak  
557 demand in excess of 90 megawatts in calendar year 2006.

558 Nothing in this section shall be deemed to grant to a cooperative any authority to amend or adjust  
559 any terms and conditions of service or agreements regarding pole attachments or the use of the  
560 cooperative's poles or conduits.

561 2. That each utility consumer services cooperative ("cooperative") organized or operated pursuant  
562 to Article 1 (§ 56-231.15 et seq.) of Chapter 9.1 of Title 56 of the Code of Virginia shall, on or  
563 before October 31, 2009, file with the State Corporation Commission ("Commission") an  
564 assessment of the statutory, regulatory, organizational, physical, contractual, financial, and market  
565 impediments to cooperative implementation of initiatives relating to dynamic rates, standby rates,  
566 interruptible rates, and rates for purchases of electricity generated from renewable sources. Each  
567 cooperative shall conduct its assessment and submit such assessment individually, collectively with  
568 one or more other cooperatives, or collectively through an association of cooperatives. The  
569 Commission shall review each assessment to evaluate its accuracy and completeness. On or before  
570 December 1, 2009, the Commission shall forward each assessment to the Governor and the  
571 General Assembly along with the Commission's evaluation of the accuracy and completeness of  
572 each report.

573 3. That the Office of the Attorney General, in consultation with the State Corporation  
574 Commission, shall prepare annual reports that quantify the separate and cumulative effects, upon  
575 the rates for electric service charged to each class of customers of each investor-owned electric  
576 utility, of the implementation of the provisions of the first enactment of this act, including but not  
577 limited to the effects of the provisions adding or amending (i) subdivision A 5 b of § 56-585.1 of  
578 the Code of Virginia, (ii) the first two sentences of the first paragraph of subdivision A 5 c of  
579 § 56-585.1, (iii) the third and fourth sentences of the first paragraph of subdivision A 5 c of  
580 § 56-585.1, and (iv) the second paragraph of subdivision A 5 c of § 56-585.1. Such reports shall  
581 also identify, and recommend appropriate corrective legislation to address, any issues pertaining to  
582 the implementation of the provisions of the first enactment of this act that have produced results  
583 that are not consistent with the public interest, as determined by the State Corporation  
584 Commission. The Office of the Attorney General shall submit such reports to the Governor and  
585 General Assembly on or before November 1 of each year commencing in 2009.