

2015 SESSION

LEGISLATION NOT PREPARED BY DLS
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SENATE BILL NO. 1349

FLOOR AMENDMENT IN THE NATURE OF A SUBSTITUTE

(Proposed by Senator Wagner)

(Patron Prior to Substitute—Senator Wagner)

Senate Amendments in [] — February 6, 2015

A *BILL to amend and reenact § 56-599 of the Code of Virginia, relating to electric utility regulation; suspension of regulatory reviews of utility earnings; integrated resource plan schedule.*

Be it enacted by the General Assembly of Virginia:

1. That § 56-599 of the Code of Virginia is amended and reenacted as follows:

§ 56-599. Integrated resource plan required.

A. Not later than December 31, 2008, the Commission shall order each electric utility to develop an integrated resource plan. The order may establish guidelines for developing an IRP.

B. By September 1, 2009, each electric utility shall file an initial integrated resource plan with the Commission, which plan shall comply with the provisions of the order of the Commission issued pursuant to subsection A.

C. Each electric utility shall file an updated integrated resource plan at least every two years thereafter, which plan by July 1, 2015. Thereafter, each electric utility shall file an updated integrated resource plan annually by May 1. A copy of each integrated resource plan shall be provided to the Chairmen of the House and Senate Committees on Commerce and Labor and to the Chairman of the Commission on Electric Utility Regulation. All updated integrated resource plans shall comply with the provisions of any relevant order of the Commission establishing guidelines for the format and contents of updated and revised integrated resource plans. Each integrated resource plan shall consider options for maintaining and enhancing rate stability, energy independence, economic development including retention and expansion of energy-intensive industries, and service reliability.

D. B. In preparing an integrated resource plan, each electric utility shall systematically evaluate, and may propose:

1. Entering into short-term and long-term electric power purchase contracts;

2. Owning and operating electric power generation facilities;

3. Building new generation facilities;

4. Relying on purchases from the short term or spot markets;

5. Making investments in demand-side resources, including energy efficiency and demand-side management services;

6. Taking such other actions, as the Commission may approve, to diversify its generation supply portfolio and ensure that the electric utility is able to implement an approved plan; and

7. The methods by which the electric utility proposes to acquire the supply and demand resources identified in its proposed integrated resource plan;

8. The effect of current and pending state and federal environmental regulations upon the continued operation of existing electric generation facilities or options for construction of new electric generation facilities; and

9. The most cost effective means of complying with current and pending state and federal environmental regulations, including compliance options to minimize effects on customer rates of such regulations.

E. C. The Commission shall analyze and review an integrated resource plan and, after giving notice and opportunity to be heard, the Commission shall make a determination as to whether an IRP is reasonable and is in the public interest.

2. That, notwithstanding the provisions of §§ 56-249.6 and 56-585.1 of the Code of Virginia:

A. No biennial reviews of the rates, terms, and conditions for any service of a Phase I Utility, as defined in § 56-585.1 of the Code of Virginia, shall be conducted at any time by the State Corporation Commission for the four successive 12-month test periods beginning January 1, 2014, and ending December 31, 2017. No biennial reviews of the rates, terms, and conditions for any service of a Phase II Utility, as defined in § 56-585.1 of the Code of Virginia, shall be conducted at any time by the State Corporation Commission for the five successive 12-month test periods beginning January 1, 2015, and ending December 31, 2019. Such test periods beginning January 1, 2014 and ending December 31, 2017 for a Phase I Utility, and beginning January 1, 2015 and ending December 31, 2019, for a Phase II Utility, are collectively referred to herein as the "Transitional Rate Period." [Review of recovery of fuel and purchase power costs shall continue during the Transitional Rate Period in accordance with § 56-249.6.] Any biennial review of the rates, terms, and conditions for any service of a Phase II Utility occurring in 2015 during the Transitional Rate Period shall be solely a review of the utility's earnings on its rates for generation

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SB1349ES2

60 and distribution services for the two 12-month test periods ending December 31, 2014, and a
61 determination of whether any credits to customers are due for such test periods pursuant to
62 subdivision A 8 b of § 56-585.1. After the conclusion of the Transitional Rate Period, biennial
63 reviews shall resume for a Phase I Utility in 2020, with the first such proceeding utilizing the two
64 successive 12-month test periods beginning January 1, 2018, and ending December 31, 2019. After
65 the conclusion of the Transitional Rate Period, biennial reviews shall resume for a Phase II Utility,
66 as defined in § 56-585.1, in 2022, with the first such proceeding utilizing the two successive
67 12-month test periods beginning January 1, 2020, and ending December 31, 2021. Consistent with
68 this provision, (i) no biennial review filings shall be made by an investor-owned incumbent electric
69 utility in the years 2016 through 2019, inclusive, and (ii) no adjustment to an investor-owned
70 incumbent electric utility's existing tariff rates, including any rates adopted pursuant to § 56-235.2,
71 shall be made between the beginning of the Transitional Rate Period and the conclusion of the
72 first biennial review after the conclusion of the Transitional Rate Period, except as may be
73 provided pursuant to § 56-245 or 56-249.6 or subdivisions A 4, 5, or 6 of § 56-585.1.

74 B. During the Transitional Rate Period, pursuant to § 56-36, the Commission shall have the
75 right at all times to inspect the books, papers and documents of any investor-owned incumbent
76 electric utility and to require from such companies, from time to time, special reports and
77 statements, under oath, concerning their business.

78 C. 1. Commencing in 2016 and concluding in 2018, the State Corporation Commission, after
79 notice and opportunity for a hearing, shall conduct a proceeding every two years to determine the
80 fair rate of return on common equity to be used by a Phase I Utility as the general rate of return
81 applicable to rate adjustment clauses under subdivisions A 5 or A 6 of § 56-585.1. A Phase I
82 Utility's filing in such proceedings shall be made on or before March 31 of 2016, and 2018.

83 2. Commencing in 2017 and concluding in 2019, the State Corporation Commission, after notice
84 and opportunity for a hearing, shall conduct a proceeding every two years to determine the fair
85 rate of return on common equity to be used by a Phase II Utility as the general rate of return
86 applicable to rate adjustment clauses under subdivisions A 5 or A 6 of § 56-585.1 of the Code of
87 Virginia. A Phase II utility's filing in such proceedings shall be made on or before March 31 of
88 2017 and 2019.

89 3. Such fair rate of return shall be calculated pursuant to the methodology set forth in
90 subdivisions A 2 a and b of § 56-585.1 and shall utilize the utility's actual end-of-test-period capital
91 structure and cost of capital, as well as a 12-month test period ending December 31 immediately
92 preceding the year in which the proceeding is conducted. The Commission's final order in such a
93 proceeding shall be entered no later than eight months after the date of filing, with any
94 adjustment to the fair rate of return for applicable rate adjustment clauses under subdivisions A 5
95 and 6 of § 56-585.1 taking effect on the date of the Commission's final order in the proceeding,
96 utilizing rate adjustment clause true-up protocols as the Commission may in its discretion
97 determine. Such proceeding shall concern only the issue of the determination of such fair rate of
98 return to be used for rate adjustment clauses under subdivisions A 5 and 6 of § 56-585.1, and such
99 determination shall have no effect on rates other than those applicable to such rate adjustment
100 clauses; however, after the final such proceeding for a utility has been concluded, the fair
101 combined rate of return on common equity so determined therein shall also be deemed equal to
102 the fair combined rate of return on common equity to be used in such utility's first biennial
103 review proceeding conducted after the end of the utility's Transitional Rate Period to review such
104 utility's earnings on its rates for generation and distribution services for the historic test periods.

105 D. In furtherance of rate stability during the Transitional Rate Period, any Phase II Utility
106 carrying a prior period deferred fuel expense recovery balance on its books and records as of
107 December 31, 2014, shall not recover from customers 50 percent of any such balance outstanding
108 as of December 31, 2014, and the State Corporation Commission shall implement as soon as
109 practicable reductions in the fuel factor rate of any such Phase II Utility to reflect the nonrecovery
110 of any such fuel expense as well as any reduction in the fuel factor associated with the Phase II
111 Utility's current period forecasted fuel expense over recovery for the 2014-2015 fuel year and
112 projected fuel expense for the 2015-2016 fuel year.

113 E. Except for early retirement [determinations made by the utility prior to December 1, 2014
114 plans identified by the utility in an integrated resource plan filed with the State Corporation
115 Commission by September 1, 2014] , for utility generation plants, an investor-owned incumbent
116 electric utility shall not permanently retire an electric power generation facility from service
117 during the Transitional Rate Period without first obtaining the approval of the State Corporation
118 Commission, upon petition from such investor-owned incumbent electric utility, and a finding by
119 the State Corporation Commission that the retirement determination is reasonable and [not
120 contrary to the public interest prudent] . During the Transitional Rate Period, an investor-owned
121 incumbent electric utility shall recover the following costs, as recorded per books by the utility for

financial reporting purposes and accrued against income, only through its existing tariff rates for generation or distribution services, except such costs as may be recovered pursuant to § 56-245, § 56-249.6 or subdivisions A 4, A 5, or A 6 of § 56-585.1: (i) costs associated with asset impairments related to early retirement determinations for utility generation facilities resulting from the implementation of carbon emission guidelines for existing electric power generation facilities that the U.S. Environmental Protection Agency has issued pursuant to § 111 (d) of the Clean Air Act; (ii) costs associated with severe weather events; and (iii) costs associated with natural disasters.

F. During the Transitional Rate Period:

1. The State Corporation Commission shall submit a report and make recommendations to the Governor and the General Assembly annually on or before December 1 of each year assessing the updated integrated resource plan of any investor-owned incumbent electric utility. The report shall include an analysis of, among other matters, the amount, reliability, and type of generation facilities needed to serve Virginia native load compared to what is then available to serve such load and what may be available to serve such load in the future in view of market conditions and current and pending state and federal environmental regulations. As a part of such report, the State Corporation Commission shall update its estimate of the impact upon electric rates in Virginia of the implementation of carbon emission guidelines for existing electric power generation facilities that the U.S. Environmental Protection Agency has issued pursuant to § 111(d) of the federal Clean Air Act. The State Corporation Commission shall submit copies of such annual reports to the Chairmen of the House and Senate Committees on Commerce and Labor and the Chairman of the Commission on Electric Utility Regulation; and

2. The Department of Environmental Quality shall submit a report and make recommendations to the Governor and the General Assembly annually on or before December 1 of each year concerning the implementation of carbon emission guidelines for existing electric power generation facilities that the U.S. Environmental Protection Agency has issued pursuant to § 111(d) of the federal Clean Air Act. The report shall include an analysis of, among other matters, the impact of such federal regulations on the operation of any investor-owned incumbent electric utility's electric power generation facilities and any changes, interdiction, or suspension of such regulations. The Department of Environmental Quality shall submit copies of such annual reports to the Chairmen of the House and Senate Committees on Commerce and Labor and the Chairman of the Commission on Electric Utility Regulation.

[G. The construction or purchase by an investor-owned incumbent utility of one or more generation facilities with at least one megawatt of generating capacity, and with an aggregate rated capacity that does not exceed 500 megawatts, that use energy derived from sunlight and are located in the Commonwealth, regardless of whether any of such facilities are located within or without such utility's service territory, is in the public interest, and in determining whether to approve such facility, the Commission shall liberally construe the provisions of this Act. Such utility shall utilize goods or services sourced, in whole or in part, from one or more Virginia businesses. The utility may propose a rate adjustment clause based on a market index in lieu of a cost of service model for such facility. An investor-owned incumbent utility may enter into short-term or long-term power purchase contracts for the power derived from sunlight generated by such generation facility prior to purchasing the generation facility.]

[H. Each Phase I and II Utility shall conduct a pilot program for energy assistance and weatherization for low income, elderly, and disabled individuals in their respective service territories in the Commonwealth. Each pilot program shall be funded by the utility and shall commence September 1, 2015. Each such utility shall report on the status of its pilot program, including the number of individuals served thereby, to the Governor, the State Corporation Commission, and the Chairmen of the House and Senate Commerce and Labor Committees by July 1, 2016, and each year thereafter.]

3. That the General Assembly finds that (i) competitive electric utility rates, reliable electric service, and energy independence are important public policy priorities; (ii) long-term stability of electric utility rates is a competitive advantage for the Commonwealth's economic development; (iii) [during the transition period,] existing electric power generation facilities that provide for reliable electric utility service in the Commonwealth should remain in operation [whenever practicable when prudent] ; (iv) the General Assembly should be regularly informed of utility generation resource plans in light of the challenges to existing electric power generation facilities; and (v) the enactments herein are intended to promote balanced environmental management and rate stability, to protect the Commonwealth's economy and its consumers of electric energy, including those energy-intensive customers who are most vulnerable and rate sensitive, and to avoid threats to service reliability or the Commonwealth's energy independence.

183 4. That pursuant to § 1-243, the provisions of this act are severable.