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**HOUSE BILL NO. 2291**

Offered January 11, 2017

*A BILL to amend and reenact § 56-585.1 of the Code of Virginia, relating to electric utility regulation; recovering costs of modifications to nuclear power generation facilities.*

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Patrons—Kilgore and Villanueva

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Referred to Committee on Commerce and Labor

**Be it enacted by the General Assembly of Virginia:****1. That § 56-585.1 of the Code of Virginia is amended and reenacted as follows:****§ 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.), 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) to 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

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59 Phase II Utility is an investor-owned incumbent electric utility that was bound by such a settlement.

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

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

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

84 c. The Commission may, consistent with its precedent for incumbent electric utilities prior to the  
85 enactment of Chapters 888 and 933 of the Acts of Assembly of 2007, increase or decrease the utility's  
86 combined rate of return based on the Commission's consideration of the utility's performance.

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

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

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

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

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

120 f. The determination of such returns 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 the generation and distribution services is no more than 50 basis points above or below the return as so determined or, for any test period commencing after December 31, 2012, for a Phase II Utility and after December 31, 2013, for a Phase I Utility, such return is no more than 70 basis points above or below the return as so determined, such combined return shall not be considered either excessive or insufficient, respectively. However, for any test period commencing after December 31, 2012, for a Phase II Utility, and after December 31, 2013, for a Phase I Utility, if the utility has, during the test period or periods under review, earned below the return as so determined, whether or not such combined return is within 70 basis points of the return as so determined, the utility may petition the Commission for approval of an increase in rates in accordance with the provisions of subdivision 8 a as if it had earned more than 70 basis points below a fair combined rate of return, and such proceeding shall otherwise be conducted in accordance with the provisions of this section.

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; however, if the Commission elects to stagger the dates of the biennial reviews of utilities as provided in subdivision 1, then each Phase I Utility shall commence biennial filings in 2011 and each Phase II Utility 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 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. A Phase I Utility shall delay for one year the filing of its biennial review from March 31, 2013, to March 31, 2014, and shall not defer on its books for future recovery any costs incurred during calendar year 2011, other than as provided in subdivision 7 or § 56-249.6, and its subsequent biennial filing shall be made by March 31, 2016, and every two years thereafter.

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 for the utility to design and operate fair and effective peak-shaving programs. The Commission shall approve such a petition if it finds that the program is in the public interest; provided that the Commission shall allow the recovery of such costs as it finds are reasonable;

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

191 None of the costs of new energy efficiency programs of an electric utility, including recovery of  
192 revenue reductions, shall be assigned to any customer that has a verifiable history of having used more  
193 than 10 megawatts of demand from a single meter of delivery. Nor shall any of the costs of new energy  
194 efficiency programs of an electric utility, including recovery of revenue reductions, be incurred by any  
195 large general service customer as defined herein that has notified the utility of non-participation in such  
196 energy efficiency program or programs. A large general service customer is a customer that has a  
197 verifiable history of having used more than 500 kilowatts of demand from a single meter of delivery.  
198 Non-participation in energy efficiency programs shall be allowed by the Commission if the large general  
199 service customer has, at the customer's own expense, implemented energy efficiency programs that have  
200 produced or will produce measured and verified results consistent with industry standards and other  
201 regulatory criteria stated in this section. The Commission shall, no later than November 15, 2009,  
202 promulgate rules and regulations to accommodate the process under which such large general service  
203 customers shall file notice for such an exemption and (i) establish the administrative procedures by  
204 which eligible customers will notify the utility and (ii) define the standard criteria that must be satisfied  
205 by an applicant in order to notify the utility. In promulgating such rules and regulations, the  
206 Commission may also specify the timing as to when a utility shall accept and act on such notice, taking  
207 into consideration the utility's integrated resource planning process as well as its administration of  
208 energy efficiency programs that are approved for cost recovery by the Commission. The notice of  
209 non-participation by a large general service customer, to be given by March 1 of a given year, shall be  
210 for the duration of the service life of the customer's energy efficiency program. The Commission on its  
211 own motion may initiate steps necessary to verify such non-participants' achievement of energy  
212 efficiency if the Commission has a body of evidence that the non-participant has knowingly  
213 misrepresented its energy efficiency achievement. A utility shall not charge such large general service  
214 customer, as defined by the Commission, for the costs of installing energy efficiency equipment beyond  
215 what is required to provide electric service and meter such service on the customer's premises if the  
216 customer provides, at the customer's expense, equivalent energy efficiency equipment. In all relevant  
217 proceedings pursuant to this section, the Commission shall take into consideration the goals of economic  
218 development, energy efficiency and environmental protection in the Commonwealth;

219 d. Projected and actual costs of participation in a renewable energy portfolio standard program  
220 pursuant to § 56-585.2 that are not recoverable under subdivision 6. The Commission shall approve such  
221 a petition allowing the recovery of such costs as are provided for in a program approved pursuant to  
222 § 56-585.2;

223 e. Projected and actual costs of projects that the Commission finds to be necessary to comply with  
224 state or federal environmental laws or regulations applicable to generation facilities used to serve the  
225 utility's native load obligations. The Commission shall approve such a petition if it finds that such costs  
226 are necessary to comply with such environmental laws or regulations; and

227 f. Projected and actual costs, not currently in rates, for the utility to design, implement, and operate  
228 programs approved by the Commission that accelerate the vegetation management of distribution  
229 rights-of-way. No costs shall be allocated to or recovered from customers that are served within the  
230 large general service rate classes for a Phase II Utility or that are served at subtransmission or  
231 transmission voltage, or take delivery at a substation served from subtransmission or transmission  
232 voltage, for a Phase I Utility.

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

235 6. To ensure the generation and delivery of a reliable and adequate supply of electricity, to meet the  
236 utility's projected native load obligations and to promote economic development, a utility may at any  
237 time, after the expiration or termination of capped rates, petition the Commission for approval of a rate  
238 adjustment clause for recovery on a timely and current basis from customers of the costs of (i) a  
239 coal-fueled generation facility that utilizes Virginia coal and is located in the coalfield region of the  
240 Commonwealth, as described in § 15.2-6002, regardless of whether such facility is located within or  
241 without the utility's service territory, (ii) one or more other generation facilities, (iii) one or more major  
242 unit modifications of generation facilities, *including the costs of any system or equipment upgrade,*  
243 *system or equipment replacement, or other cost reasonably appropriate to extend the combined*

244 *operating license for or the operating life of one or more generation facilities utilizing nuclear power,*  
 245 *or (iv) one or more new underground facilities to replace one or more existing overhead distribution*  
 246 *facilities of 69 kilovolts or less located within the Commonwealth; however, subject to the provisions of*  
 247 *the following sentence, the utility shall not file a petition under clause (iv) more often than annually*  
 248 *and, in such petition, shall not seek any annual incremental increase in the level of investments*  
 249 *associated with such a petition that exceeds five percent of such utility's distribution rate base, as such*  
 250 *rate base was determined for the most recently ended 12-month test period in the utility's latest biennial*  
 251 *review proceeding conducted pursuant to subdivision 3 and concluded by final order of the Commission*  
 252 *prior to the date of filing of such petition under clause (iv). In all proceedings regarding petitions filed*  
 253 *under clause (iv), the level of investments approved for recovery in such proceedings shall be in*  
 254 *addition to, and not in lieu of, levels of investments previously approved for recovery in prior*  
 255 *proceedings under clause (iv). Such a petition concerning facilities described in clause (ii) that utilize*  
 256 *nuclear power, facilities described in clause (ii) that are coal-fueled and will be built by a Phase I*  
 257 *Utility, or facilities described in clause (i) may also be filed before the expiration or termination of*  
 258 *capped rates. A utility that constructs or makes modifications to any such facility, or purchases any*  
 259 *facility consisting of at least one megawatt of generating capacity using energy derived from sunlight*  
 260 *and located in the Commonwealth and that utilizes goods or services sourced, in whole or in part, from*  
 261 *one or more Virginia businesses, shall have the right to recover the costs of the facility, as accrued*  
 262 *against income, through its rates, including projected construction work in progress, and any associated*  
 263 *allowance for funds used during construction, planning, development and construction or acquisition*  
 264 *costs, life-cycle costs, costs related to assessing the feasibility of potential sites for new underground*  
 265 *facilities, and costs of infrastructure associated therewith, plus, as an incentive to undertake such*  
 266 *projects, an enhanced rate of return on common equity calculated as specified below; however, in*  
 267 *determining the amounts recoverable under a rate adjustment clause for new underground facilities, the*  
 268 *Commission shall not consider, or increase or reduce such amounts recoverable because of (a) the*  
 269 *operation and maintenance costs attributable to either the overhead distribution facilities being replaced*  
 270 *or the new underground facilities or (b) any other costs attributable to the overhead distribution facilities*  
 271 *being replaced. Notwithstanding the preceding sentence, the costs described in clauses (a) and (b)*  
 272 *thereof shall remain eligible for recovery from customers through the utility's base rates for distribution*  
 273 *service. A utility filing a petition for approval to construct or purchase a facility consisting of at least*  
 274 *one megawatt of generating capacity using energy derived from sunlight and located in the*  
 275 *Commonwealth and that utilizes goods or services sourced, in whole or in part, from one or more*  
 276 *Virginia businesses may propose a rate adjustment clause based on a market index in lieu of a cost of*  
 277 *service model for such facility. A utility seeking approval to construct or purchase a generating facility*  
 278 *described in clause (ii) shall demonstrate that it has considered and weighed alternative options,*  
 279 *including third-party market alternatives, in its selection process. The costs of the facility, other than*  
 280 *return on projected construction work in progress and allowance for funds used during construction,*  
 281 *shall not be recovered prior to the date a facility constructed by the utility and described in clause (i),*  
 282 *(ii), or (iii) begins commercial operation, the date the utility becomes the owner of a purchased*  
 283 *generation facility consisting of at least one megawatt of generating capacity using energy derived from*  
 284 *sunlight and located in the Commonwealth and that utilizes goods or services sourced, in whole or in*  
 285 *part, from one or more Virginia businesses, or the date new underground facilities are classified by the*  
 286 *utility as plant in service. Such enhanced rate of return on common equity shall be applied to allowance*  
 287 *for funds used during construction and to construction work in progress during the construction phase of*  
 288 *the facility and shall thereafter be applied to the entire facility during the first portion of the service life*  
 289 *of the facility. The first portion of the service life shall be as specified in the table below; however, the*  
 290 *Commission shall determine the duration of the first portion of the service life of any facility, within the*  
 291 *range specified in the table below, which determination shall be consistent with the public interest and*  
 292 *shall reflect the Commission's determinations regarding how critical the facility may be in meeting the*  
 293 *energy needs of the citizens of the Commonwealth and the risks involved in the development of the*  
 294 *facility. After the first portion of the service life of the facility is concluded, the utility's general rate of*  
 295 *return shall be applied to such facility for the remainder of its service life. As used herein, the service*  
 296 *life of the facility shall be deemed to begin on the date a facility constructed by the utility and described*  
 297 *in clause (i), (ii), or (iii) begins commercial operation, the date the utility becomes the owner of a*  
 298 *purchased generation facility consisting of at least one megawatt of generating capacity using energy*  
 299 *derived from sunlight and located in the Commonwealth and that utilizes goods or services sourced, in*  
 300 *whole or in part, from one or more Virginia businesses, or the date new underground facilities are*  
 301 *classified by the utility as plant in service, and such service life shall be deemed equal in years to the*  
 302 *life of that facility as used to calculate the utility's depreciation expense. Such enhanced rate of return*  
 303 *on common equity shall be calculated by adding the basis points specified in the table below to the*  
 304 *utility's general rate of return, and such enhanced rate of return shall apply only to the facility that is the*

subject of such rate adjustment clause. Allowance for funds used during construction shall be calculated for any such facility utilizing the utility's actual capital structure and overall cost of 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 construction or purchase by a 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 the 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 title. A 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. In determining whether to approve petitions for rate adjustment clauses for new underground facilities, and in determining the level of costs to be recovered thereunder, the Commission shall liberally construe the provisions of this title and shall give due consideration to the public policy goals of increased electric service reliability and reduced outage times associated with the replacement of existing overhead distribution facilities with new underground facilities. 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, other than landfill gas powered	200	Between 5 and 15 years
Coalbed methane gas powered	150	Between 5 and 15 years
Landfill gas powered	200	Between 5 and 15 years
Conventional coal or combined-cycle combustion turbine	100	Between 10 and 20 years

For generating facilities other than those utilizing nuclear power or those utilizing energy derived from offshore wind, as of July 1, 2013, only those facilities as to which a rate adjustment clause under this subdivision has been previously approved by the Commission, or as to which a petition for approval of such rate adjustment clause was filed with the Commission, on or before January 1, 2013, shall be entitled to the enhanced rate of return on common equity as specified in the above table during the construction phase of the facility and the approved first portion of its service life.

For generating facilities within the Commonwealth utilizing nuclear power or those utilizing energy derived from offshore wind projects located in waters off the Commonwealth's Atlantic shoreline, such facilities shall continue to be eligible for an enhanced rate of return on common equity during the construction phase of the facility and the approved first portion of its service life of between 12 and 25 years in the case of a facility utilizing nuclear power and for a service life of between 5 and 15 years in the case of a facility utilizing energy derived from offshore wind, provided, however, that, as of July 1, 2013, the enhanced return for such facilities *constructed pursuant to clause (ii)* shall be 100 basis points, which shall be added to the utility's general rate of return as determined under subdivision 2. Thirty percent of all costs of such a facility utilizing nuclear power that the utility incurred between July 1, 2007, and December 31, 2013, and all of such costs incurred after December 31, 2013, may be deferred by the utility and recovered through a rate adjustment clause under this subdivision at such time as the Commission provides in an order approving such a rate adjustment clause. The remaining 70 percent of all costs of such a facility that the utility incurred between July 1, 2007, and December 31, 2013, shall not be deferred for recovery through a rate adjustment clause under this subdivision; however, such remaining 70 percent of all costs shall be recovered ratably through existing base rates as determined by the Commission in the test periods under review in the utility's next biennial review filed after July 1, 2014. Thirty percent of all costs of such a facility utilizing energy derived from offshore wind that the utility incurred between July 1, 2007, and December 31, 2013, and all of such costs incurred after December 31, 2013, may be deferred by the utility and recovered through a rate adjustment clause under this subdivision at such time as the Commission provides in an order approving such a rate adjustment clause. The remaining 70 percent of all costs of such a facility that the utility incurred between July 1, 2007, and December 31, 2013, shall not be deferred for recovery through a rate adjustment clause under this subdivision; however, such remaining 70 percent of all costs shall be recovered ratably through existing base rates as determined by the Commission in the test periods under review in the utility's next biennial review filed after July 1, 2014.

In connection with planning to meet forecasted demand for electric generation supply and assure the adequate and sufficient reliability of service, consistent with § 56-598, planning and development activities for a new nuclear generation facility or facilities are in the public interest.

367 In connection with planning to meet forecasted demand for electric generation supply and assure the  
368 adequate and sufficient reliability of service, consistent with § 56-598, planning and development  
369 activities for a new utility-owned and utility-operated generating facility or facilities utilizing energy  
370 derived from sunlight with an aggregate capacity of 500 megawatts, or from offshore wind, are in the  
371 public interest.

372 Neither generation facilities described in clause (ii) that utilize simple-cycle combustion turbines nor  
373 new underground facilities shall receive an enhanced rate of return on common equity as described  
374 herein, but instead shall receive the utility's general rate of return during the construction phase of the  
375 facility and, thereafter, for the entire service life of the facility. No rate adjustment clause for new  
376 underground facilities shall allocate costs to, or provide for the recovery of costs from, customers that  
377 are served within the large power service rate class for a Phase I Utility and the large general service  
378 rate classes for a Phase II Utility. New underground facilities are hereby declared to be ordinary  
379 extensions or improvements in the usual course of business under the provisions of § 56-265.2.

380 As used in this subdivision, a generation facility is (1) "coalbed methane gas powered" if the facility  
381 is fired at least 50 percent by coalbed methane gas, as such term is defined in § 45.1-361.1, produced  
382 from wells located in the Commonwealth, and (2) "landfill gas powered" if the facility is fired by  
383 methane or other combustible gas produced by the anaerobic digestion or decomposition of  
384 biodegradable materials in a solid waste management facility licensed by the Waste Management Board.  
385 A landfill gas powered facility includes, in addition to the generation facility itself, the equipment used  
386 in collecting, drying, treating, and compressing the landfill gas and in transmitting the landfill gas from  
387 the solid waste management facility where it is collected to the generation facility where it is  
388 combusted.

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

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

406 7. Any petition filed pursuant to subdivision 4, 5, or 6 shall be considered by the Commission on a  
407 stand-alone basis without regard to the other costs, revenues, investments, or earnings of the utility. Any  
408 costs incurred by a utility prior to the filing of such petition, or during the consideration thereof by the  
409 Commission, that are proposed for recovery in such petition and that are related to subdivision 5 a, or  
410 that are related to facilities and projects described in clause (i) of subdivision 6, or that are related to  
411 new underground facilities described in clause (iv) of subdivision 6, shall be deferred on the books and  
412 records of the utility until the Commission's final order in the matter, or until the implementation of any  
413 applicable approved rate adjustment clauses, whichever is later. Except as otherwise provided in  
414 subdivision 6, any costs prudently incurred on or after July 1, 2007, by a utility prior to the filing of  
415 such petition, or during the consideration thereof by the Commission, that are proposed for recovery in  
416 such petition and that are related to facilities and projects described in clause (ii) or clause (iii) of  
417 subdivision 6 that utilize nuclear power, or coal-fueled facilities and projects described in clause (ii) of  
418 subdivision 6 if such coal-fueled facilities will be built by a Phase I Utility, shall be deferred on the  
419 books and records of the utility until the Commission's final order in the matter, or until the  
420 implementation of any applicable approved rate adjustment clauses, whichever is later. Any costs  
421 prudently incurred after the expiration or termination of capped rates related to other matters described  
422 in subdivision 4, 5, or 6 shall be deferred beginning only upon the expiration or termination of capped  
423 rates, provided, however, that no provision of this act shall affect the rights of any parties with respect  
424 to the rulings of the Federal Energy Regulatory Commission in PJM Interconnection LLC and Virginia  
425 Electric and Power Company, 109 F.E.R.C. P 61, 012 (2004). A utility shall establish a regulatory asset  
426 for regulatory accounting and ratemaking purposes under which it shall defer its operation and  
427 maintenance costs incurred in connection with (i) the refueling of any nuclear-powered generating plant

428 and (ii) other work at such plant normally performed during a refueling outage. The utility shall  
429 amortize such deferred costs over the refueling cycle, but in no case more than 18 months, beginning  
430 with the month in which such plant resumes operation after such refueling. The refueling cycle shall be  
431 the applicable period of time between planned refueling outages for such plant. As of January 1, 2014,  
432 such amortized costs are a component of base rates, recoverable in base rates only ratably over the  
433 refueling cycle rather than when such outages occur, and are the only nuclear refueling costs recoverable  
434 in base rates. This provision shall apply to any nuclear-powered generating plant refueling outage  
435 commencing after December 31, 2013, and the Commission shall treat the deferred and amortized costs  
436 of such regulatory asset as part of the utility's costs for the purpose of proceedings conducted (a) with  
437 respect to biennial filings under subdivision 3 made on and after July 1, 2014, and (b) pursuant to  
438 § 56-245 or the Commission's rules governing utility rate increase applications as provided in subsection  
439 B. This provision shall not be deemed to change or reset base rates.

440 The Commission's final order regarding any petition filed pursuant to subdivision 4, 5, or 6 shall be  
441 entered not more than three months, eight months, and nine months, respectively, after the date of filing  
442 of such petition. If such petition is approved, the order shall direct that the applicable rate adjustment  
443 clause be applied to customers' bills not more than 60 days after the date of the order, or upon the  
444 expiration or termination of capped rates, whichever is later.

445 8. In any biennial review proceeding, the following utility generation and distribution costs not  
446 proposed for recovery under any other subdivision of this subsection, as recorded per books by the  
447 utility for financial reporting purposes and accrued against income, shall be attributed to the test periods  
448 under review: costs associated with asset impairments related to early retirement determinations made by  
449 the utility prior to December 31, 2012, for utility generation plant; costs associated with severe weather  
450 events; and costs associated with natural disasters. Such costs shall be deemed to have been recovered  
451 from customers through rates for generation and distribution services in effect during the test periods  
452 under review unless such costs, individually or in the aggregate, together with the utility's other costs,  
453 revenues, and investments to be recovered through rates for generation and distribution services, result in  
454 the utility's earned return on its generation and distribution services for the combined test periods under  
455 review to fall more than 50 basis points below the fair combined rate of return authorized under  
456 subdivision 2 for such periods or, for any test period commencing after December 31, 2012, for a Phase  
457 II Utility and after December 31, 2013, for a Phase I Utility, to fall more than 70 basis points below the  
458 fair combined rate of return authorized under subdivision 2 for such periods. In such cases, the  
459 Commission shall, in such biennial review proceeding, authorize deferred recovery of such costs and  
460 allow the utility to amortize and recover such deferred costs over future periods as determined by the  
461 Commission. The aggregate amount of such deferred costs shall not exceed an amount that would,  
462 together with the utility's other costs, revenues, and investments to be recovered through rates for  
463 generation and distribution services, cause the utility's earned return on its generation and distribution  
464 services to exceed the fair rate of return authorized under subdivision 2, less 50 basis points, for the  
465 combined test periods under review or, for any test period commencing after December 31, 2012, for a  
466 Phase II Utility and after December 31, 2013, for a Phase I Utility, to exceed the fair rate of return  
467 authorized under subdivision 2 less 70 basis points. Nothing in this section shall limit the Commission's  
468 authority, pursuant to the provisions of Chapter 10 (§ 56-232 et seq.), including specifically § 56-235.2,  
469 following the review of combined test period earnings of the utility in a biennial review, for  
470 normalization of nonrecurring test period costs and annualized adjustments for future costs, in  
471 determining any appropriate increase or decrease in the utility's rates for generation and distribution  
472 services pursuant to subdivision 8 a or 8 c.

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

474 a. The utility has, during the test period or periods under review, considered as a whole, earned more  
475 than 50 basis points below a fair combined rate of return on its generation and distribution services or,  
476 for any test period commencing after December 31, 2012, for a Phase II Utility and after December 31,  
477 2013, for a Phase I Utility, more than 70 basis points below a fair combined rate of return on its  
478 generation and distribution services, as determined in subdivision 2, without regard to any return on  
479 common equity or other matters determined with respect to facilities described in subdivision 6, the  
480 Commission shall order increases to the utility's rates necessary to provide the opportunity to fully  
481 recover the costs of providing the utility's services and to earn not less than such fair combined rate of  
482 return, using the most recently ended 12-month test period as the basis for determining the amount of  
483 the rate increase necessary. However, the Commission may not order such rate increase unless it finds  
484 that the resulting rates are necessary to provide the utility with the opportunity to fully recover its costs  
485 of providing its services and to earn not less than a fair combined rate of return on both its generation  
486 and distribution services, as determined in subdivision 2, without regard to any return on common equity  
487 or other matters determined with respect to facilities described in subdivision 6, using the most recently  
488 ended 12-month test period as the basis for determining the permissibility of any rate increase under the  
489 standards of this sentence, and the amount thereof;



b. The utility has, during the test period or test periods under review, considered as a whole, earned more than 50 basis points above a fair combined rate of return on its generation and distribution services or, for any test period commencing after December 31, 2012, for a Phase II Utility and after December 31, 2013, for a Phase I Utility, more than 70 basis points above a fair combined rate of return on its generation and distribution services, as determined in subdivision 2, without regard to any return on common equity or other matters determined with respect to facilities described in subdivision 6, the Commission shall, subject to the provisions of subdivision 9, direct that 60 percent of the amount of such earnings that were more than 50 basis points, or, for any test period commencing after December 31, 2012, for a Phase II Utility and after December 31, 2013, for a Phase I Utility, that 70 percent of the amount of such earnings that were more than 70 basis points, above such fair combined rate of return for the test period or periods under review, considered as a whole, shall be credited to customers' bills. Any 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 shall 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; or

c. Such biennial review is the second consecutive biennial review in which the utility has, during the test period or test periods under review, considered as a whole, earned more than 50 basis points above a fair combined rate of return on its generation and distribution services or, for any test period commencing after December 31, 2012, for a Phase II Utility and after December 31, 2013, for a Phase I Utility, more than 70 basis points above a fair combined rate of return on its generation and distribution services, as determined in subdivision 2, without regard to any return on common equity or other matter determined with respect to facilities described in subdivision 6, the Commission shall, subject to the provisions of subdivision 9 and in addition to the actions authorized in subdivision b, also order reductions to the utility's rates it finds appropriate. However, 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 a fair combined rate of return on its generation and distribution services, as determined in subdivision 2, without regard to any return on common equity or other matters determined with respect to facilities described in subdivision 6, using the most recently ended 12-month test period as the basis for determining the permissibility of any rate reduction under the standards of this sentence, and the amount thereof.

The Commission's final order regarding such biennial review shall be entered not more than eight months after the date of filing, and any revisions in rates or credits so ordered shall take effect not more than 60 days after the date of the order. The fair combined rate of return on common equity determined pursuant to subdivision 2 in such biennial review shall apply, for purposes of reviewing the utility's earnings on its rates for generation and distribution services, to the entire two successive 12-month test periods ending December 31 immediately preceding the year of the utility's subsequent biennial review filing under subdivision 3.

9. If, as a result of a biennial review required under this subsection and conducted with respect to any test period or periods under review ending later than December 31, 2010 (or, if the Commission has elected to stagger its biennial reviews of utilities as provided in subdivision 1, under review ending later than December 31, 2010, for a Phase I Utility, or December 31, 2011, for a Phase II Utility), the Commission finds, with respect to such test period or periods considered as a whole, that (i) any utility has, during the test period or periods under review, considered as a whole, earned more than 50 basis points above a fair combined rate of return on its generation and distribution services or, for any test period commencing after December 31, 2012, for a Phase II Utility and after December 31, 2013, for a Phase I Utility, more than 70 basis points above a fair combined rate of return on its generation and distribution services, as determined in subdivision 2, without regard to any return on common equity or other matters determined with respect to facilities described in subdivision 6, and (ii) the total aggregate regulated rates of such utility at the end of the most recently-ended 12-month test period exceeded the annual increases 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, compounded annually, when compared to the total aggregate regulated rates of such utility as determined pursuant to the biennial review conducted for the base period, the Commission shall, unless it finds that such action is not in the public interest or that the provisions of subdivisions 8 b and c are more consistent with the public interest, direct that any or all earnings for such test period or periods under review, considered as a whole that were more than 50 basis points, or, for any test period commencing after December 31, 2012, for a Phase II Utility and after December 31, 2013, for a Phase I Utility, more than 70 basis points, above such fair combined rate of return shall be credited to customers' bills, in lieu of the provisions of subdivisions 8 b and c. Any such credits shall be amortized and allocated among customer classes in the manner provided by subdivision 8 b. For purposes of this

551 subdivision:

552 "Base period" means (i) the test period ending December 31, 2010 (or, if the Commission has elected  
553 to stagger its biennial reviews of utilities as provided in subdivision 1, the test period ending December  
554 31, 2010, for a Phase I Utility, or December 31, 2011, for a Phase II Utility), or (ii) the most recent test  
555 period with respect to which credits have been applied to customers' bills under the provisions of this  
556 subdivision, whichever is later.

557 "Total aggregate regulated rates" shall include: (i) fuel tariffs approved pursuant to § 56-249.6, except  
558 for any increases in fuel tariffs deferred by the Commission for recovery in periods after December 31,  
559 2010, pursuant to the provisions of clause (ii) of subsection C of § 56-249.6; (ii) rate adjustment clauses  
560 implemented pursuant to subdivision 4 or 5; (iii) revisions to the utility's rates pursuant to subdivision 8  
561 a; (iv) revisions to the utility's rates pursuant to the Commission's rules governing utility rate increase  
562 applications, as permitted by subsection B, occurring after July 1, 2009; and (v) base rates in effect as  
563 of July 1, 2009.

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

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

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

586 D. The Commission may determine, during any proceeding authorized or required by this section, the  
587 reasonableness or prudence of any cost incurred or projected to be incurred, by a utility in connection  
588 with the subject of the proceeding. A determination of the Commission regarding the reasonableness or  
589 prudence of any such cost shall be consistent with the Commission's authority to determine the  
590 reasonableness or prudence of costs in proceedings pursuant to the provisions of Chapter 10 (§ 56-232 et  
591 seq.). In determining the reasonableness or prudence of a utility providing energy and capacity to its  
592 customers from renewable energy resources, the Commission shall consider the extent to which such  
593 renewable energy resources, whether utility-owned or by contract, further the objectives of the  
594 Commonwealth Energy Policy set forth in §§ 67-101 and 67-102, and shall also consider whether the  
595 costs of such resources is likely to result in unreasonable increases in rates paid by consumers.

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