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SENATE BILL NO. 646

Offered January 10, 2018

Prefiled January 10, 2018

A BILL to amend and reenact § 56-249.6 of the Code of Virginia, relating to public utilities; fuel cost recovery; contracts for natural gas pipeline capacity.

Patrons—McPike, Petersen and Wexton

Referred to Committee on Commerce and Labor

Be it enacted by the General Assembly of Virginia:**1. That § 56-249.6 of the Code of Virginia is amended and reenacted as follows:****§ 56-249.6. Recovery of fuel and purchased power costs.**

A. 1. Each electric utility that purchases fuel for the generation of electricity or purchases power and that was not, as of July 1, 1999, bound by a rate case settlement adopted by the Commission that extended in its application beyond January 1, 2002, shall submit to the Commission its estimate of fuel costs, including the cost of purchased power, for the 12-month period beginning on the date prescribed by the Commission. Upon investigation of such estimates and hearings in accordance with law, the Commission shall direct each company to place in effect tariff provisions designed to recover the fuel costs determined by the Commission to be appropriate for that period, adjusted for any over-recovery or under-recovery of fuel costs previously incurred.

2. The Commission shall continuously review fuel costs and if it finds that any utility described in subdivision A 1 is in an over-recovery position by more than five percent, or likely to be so, it may reduce the fuel cost tariffs to correct the over-recovery.

3. Beginning July 1, 2009, for all utilities described in subdivision A 1 and subsection B, if the Commission approves any increase in fuel factor charges pursuant to this section that would increase the total rates of the residential class of customers of any such utility by more than 20 percent, the Commission, within six months following the effective date of such increase, shall review fuel costs, and if the Commission finds that the utility is, or is likely to be, in an over-recovery position with respect to fuel costs for the 12-month period for which the increase in fuel factor charges was approved by more than five percent, it may reduce the utility's fuel cost tariffs to correct the over-recovery.

B. All fuel costs recovery tariff provisions in effect on January 1, 2004, for any electric utility that purchases fuel for the generation of electricity and that was, as of July 1, 1999, bound by a rate case settlement adopted by the Commission that extended in its application beyond January 1, 2002, shall remain in effect until the later of (i) July 1, 2007 or (ii) the establishment of tariff provisions under subsection C. Any such utility shall continue to report to the Commission annually its actual fuel costs, including the cost of purchased power.

C. Each electric utility described in subsection B shall submit annually to the Commission its estimate of fuel costs, including the cost of purchased power, for successive 12-month periods beginning on July 1, 2007, and each July 1 thereafter. Upon investigation of such estimates and hearings in accordance with law, the Commission shall direct each such utility to place in effect tariff provisions designed to recover the fuel costs determined by the Commission to be appropriate for such periods, adjusted for any over-recovery or under-recovery of fuel costs previously incurred; however, (i) no such adjustment for any over-recovery or under-recovery of fuel costs previously incurred shall be made for any period prior to July 1, 2007, and (ii) the Commission shall order that the deferral portion, if any, of the total increase in fuel tariffs for all classes as determined by the Commission to be appropriate for the 12-month period beginning July 1, 2007, above the fuel tariffs previously existing, shall be deferred without interest and recovered from all classes of customers as follows: (i) in the 12-month period beginning July 1, 2008, that part of the deferral portion of the increase in fuel tariffs that the Commission determines would increase the total rates of the residential class of customers of the utility by four percent over the level of such total rates in existence on June 30, 2008, shall be recovered; (ii) in the 12-month period beginning July 1, 2009, that part of the balance of the deferral portion of the increase in fuel tariffs, if any, that the Commission determines would increase the total rates of the residential class of customers of the utility by four percent over the level of such total rates in existence on June 30, 2009, shall be recovered; and (iii) in the 12-month period beginning July 1, 2010, the entire balance of the deferral portion of the increase in fuel tariffs, if any, shall be recovered. The "deferral portion of the increase in fuel tariffs" means the portion of such increase in fuel tariffs that exceeds the amount of such increase in fuel tariffs that the Commission determines would increase the total rates of the residential class of customers of the utility by more than four percent over the level of such total

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59 rates in existence on June 30, 2007.

60 D. In proceedings under subsections A and C:

61 1. Energy revenues associated with off-system sales of power shall be credited against fuel factor
62 expenses in an amount equal to the total incremental fuel factor costs incurred in the production and
63 delivery of such sales. In addition, 75 percent of the total annual margins from off-system sales shall be
64 credited against fuel factor expenses; however, the Commission, upon application and after notice and
65 opportunity for hearing, may require that a smaller percentage of such margins be so credited if it finds
66 by clear and convincing evidence that such requirement is in the public interest. The remaining margins
67 from off-system sales shall not be considered in the biennial reviews of electric utilities conducted
68 pursuant to § 56-585.1. In the event such margins result in a net loss to the electric utility, (i) no
69 charges shall be applied to fuel factor expenses and (ii) any such net losses shall not be considered in
70 the biennial reviews of electric utilities conducted pursuant to § 56-585.1. For purposes of this
71 subsection, "margins from off-system sales" shall mean the total revenues received from off-system sales
72 transactions less the total incremental costs incurred; and

73 2. The Commission shall disallow recovery of any fuel costs that it finds without just cause to be the
74 result of failure of the utility to make every reasonable effort to minimize fuel costs or any decision of
75 the utility resulting in unreasonable fuel costs, giving due regard to reliability of service and the need to
76 maintain reliable sources of supply, economical generation mix, generating experience of comparable
77 facilities, and minimization of the total cost of providing service.

78 E. The Commission is authorized to promulgate, in accordance with the provisions of this section, all
79 rules and regulations necessary to allow the recovery by electric utilities of all of their prudently
80 incurred fuel costs under subsections A and C, including the cost of purchased power, as precisely and
81 promptly as possible, with no over-recovery or under-recovery, except as provided in subsection C, in a
82 manner that will tend to assure public confidence and minimize abrupt changes in charges to consumers.

83 *F. Notwithstanding any provision of this section to the contrary, the Commission shall disallow*
84 *recovery of any fuel costs resulting from the purchase by the public utility or its affiliate or subsidiary*
85 *of a greater amount of firm pipeline capacity for natural gas than the Commission finds, in a*
86 *proceeding conducted in accordance with its Rules of Practice and Procedure, is appropriate to ensure*
87 *a reliable supply of natural gas, including a reasonable reserve margin.*

88 **2. That the State Corporation Commission shall conduct a proceeding to establish the proper**
89 **amount of natural gas pipeline capacity that an electric utility needs to purchase under firm**
90 **contract, including a reasonable reserve margin, in order to ensure a reliable supply of natural**
91 **gas. The Commission shall complete the proceeding by December 1, 2018, for any investor-owned**
92 **electric utility that was bound by a rate case settlement that extended in its application beyond**
93 **January 1, 2002.**