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HOUSE BILL NO. 746

AMENDMENT IN THE NATURE OF A SUBSTITUTE
(Proposed by the House Committee on Labor and Commerce
on February 8, 2024)

(Patron Prior to Substitute—Delegate Weibert)

A BILL to amend and reenact §§ 56-576 and 56-596.2 of the Code of Virginia, relating to energy efficiency programs; incremental annual savings.

Be it enacted by the General Assembly of Virginia:

1. That §§ 56-576 and 56-596.2 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.

"Business park" means a land development containing a minimum of 100 contiguous acres classified as a Tier 4 site under the Virginia Economic Development Partnership's Business Ready Sites Program that is developed and constructed by a locality, an industrial development authority, or a similar political subdivision of the Commonwealth created pursuant to § 15.2-4903 or other act of the General Assembly, in order to promote business development.

"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.

"Community in which a majority of the population are people of color" means a U.S. Census tract where more than 50 percent of the population comprises individuals who identify as belonging to one or more of the following groups: Black, African American, Asian, Pacific Islander, Native American, other non-white race, mixed race, Hispanic, Latino, or linguistically isolated.

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

"Covered entity" means a provider in the Commonwealth of an electric service not subject to competition but does 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 distribution grid transformation project" means a project associated with electric distribution infrastructure, including related data analytics equipment, that is designed to accommodate or facilitate the integration of utility-owned or customer-owned renewable electric generation resources with the utility's electric distribution grid or to otherwise enhance electric distribution grid reliability, electric distribution grid security, customer service, or energy efficiency and conservation, including advanced

60 metering infrastructure; intelligent grid devices for real time system and asset information; automated
61 control systems for electric distribution circuits and substations; communications networks for service
62 meters; intelligent grid devices and other distribution equipment; distribution system hardening projects
63 for circuits, other than the conversion of overhead tap lines to underground service, and substations
64 designed to reduce service outages or service restoration times; physical security measures at key
65 distribution substations; cyber security measures; energy storage systems and microgrids that support
66 circuit-level grid stability, power quality, reliability, or resiliency or provide temporary backup energy
67 supply; electrical facilities and infrastructure necessary to support electric vehicle charging systems; LED
68 street light conversions; and new customer information platforms designed to provide improved customer
69 access, greater service options, and expanded access to energy usage information.

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

73 "Energy efficiency program" means a program that reduces the total amount of electricity that is
74 required for the same process or activity implemented after the expiration of capped rates. Energy
75 efficiency programs include equipment, physical, or program change designed to produce measured and
76 verified reductions in the amount of electricity required to perform the same function and produce the
77 same or a similar outcome. Energy efficiency programs may include, but are not limited to, (i) programs
78 that result in improvements in lighting design, heating, ventilation, and air conditioning systems,
79 appliances, building envelopes, and industrial and commercial processes; (ii) measures, such as but not
80 limited to the installation of advanced meters, implemented or installed by utilities, that reduce fuel use
81 or losses of electricity and otherwise improve internal operating efficiency in generation, transmission,
82 and distribution systems; and (iii) customer engagement programs that result in measurable and
83 verifiable energy savings that lead to efficient use patterns and practices. Energy efficiency programs
84 include demand response, combined heat and power and waste heat recovery, curtailment, or other
85 programs that are designed to reduce electricity consumption so long as they reduce the total amount of
86 electricity that is required for the same process or activity. Utilities shall be authorized to install and
87 operate such advanced metering technology and equipment on a customer's premises; however, nothing
88 in this chapter establishes a requirement that an energy efficiency program be implemented on a
89 customer's premises and be connected to a customer's wiring on the customer's side of the
90 inter-connection without the customer's expressed consent.

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

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

94 "Historically economically disadvantaged community" means (i) a community in which a majority of
95 the population are people of color or (ii) a low-income geographic area.

96 "Incremental annual savings" means the total combined kilowatt-hour savings achieved by electric
97 utility energy efficiency and demand response programs and measures in the program year in which
98 they are installed.

99 "Incumbent electric utility" means each electric utility in the Commonwealth that, prior to July 1,
100 1999, supplied electric energy to retail customers located in an exclusive service territory established by
101 the Commission.

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

105 "In the public interest," for purposes of assessing energy efficiency programs *prior to the 2029*
106 *program year*, describes an energy efficiency program if the Commission determines that the net present
107 value of the benefits exceeds the net present value of the costs as determined by not less than any three
108 of the following four tests: (i) the Total Resource Cost Test; (ii) the Utility Cost Test (also referred to as
109 the Program Administrator Test); (iii) the Participant Test; and (iv) the Ratepayer Impact Measure Test.
110 Such determination shall include an analysis of all four tests, and a program or portfolio of programs
111 shall be approved if the net present value of the benefits exceeds the net present value of the costs as
112 determined by not less than any three of the four tests. *For programs proposed for the 2029 program*
113 *year and all subsequent years, the Commission shall establish targets pursuant to subdivision B 4 of*
114 *§ 56-596.2, and a program shall be approved if the Commission determines it is cost-effective pursuant*
115 *to applicable Commission regulations.* If the Commission determines that an energy efficiency program
116 or portfolio of programs is not in the public interest, its final order shall include all work product and
117 analysis conducted by the Commission's staff in relation to that program, including testimony relied
118 upon by the Commission's staff, that has bearing upon the Commission's decision. If the Commission
119 reduces the proposed budget for a program or portfolio of programs, its final order shall include an
120 analysis of the impact such budget reduction has upon the cost-effectiveness of such program or
121 portfolio of programs. An order by the Commission (a) finding that a program or portfolio of programs

is not in the public interest or (b) reducing the proposed budget for any program or portfolio of programs shall adhere to existing protocols for extraordinarily sensitive information. In addition, an energy efficiency program may be deemed to be "in the public interest" if the program (1) provides measurable and verifiable energy savings to low-income customers or elderly customers or (2) is a pilot program of limited scope, cost, and duration, that is intended to determine whether a new or substantially revised program or technology would be cost-effective.

"Low-income geographic area" means any locality, or community within a locality, that has a median household income that is not greater than 80 percent of the local median household income, or any area in the Commonwealth designated as a qualified opportunity zone by the U.S. Secretary of the Treasury via his delegation of authority to the Internal Revenue Service.

"Low-income utility customer" means any person or household whose income is no more than 80 percent of the median income of the locality in which the customer resides. The median income of the locality is determined by the U.S. Department of Housing and Urban Development.

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

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

"New underground facilities" means facilities to provide underground distribution service. "New underground facilities" includes underground cables with voltages of 69 kilovolts or less, pad-mounted devices, connections at customer meters, and transition terminations from existing overhead distribution sources.

"Peak-shaving" means measures aimed solely 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.

"Percentage of Income Payment Program (PIPP) eligible utility customer" means any person or household whose income does not exceed 150 percent of the federal poverty level.

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

"Previously developed project site" means any property, including related buffer areas, if any, that has been previously disturbed or developed for non-single-family residential, non-agricultural, or non-silvicultural use, regardless of whether such property currently is being used for any purpose.

"Previously developed project site" includes a brownfield as defined in § 10.1-1230 or any parcel that has been previously used (i) for a retail, commercial, or industrial purpose; (ii) as a parking lot; (iii) as the site of a parking lot canopy or structure; (iv) for mining, which is any lands affected by coal mining that took place before August 3, 1977, or any lands upon which extraction activities have been permitted by the Department of Energy under Title 45.2; (v) for quarrying; or (vi) as a landfill.

"Qualified waste heat resource" means (i) exhaust heat or flared gas from an industrial process that does not have, as its primary purpose, the production of electricity and (ii) a pressure drop in any gas for an industrial or commercial process.

"Renewable energy" means energy derived from sunlight, wind, falling water, biomass, sustainable or otherwise, (the definitions of which shall be liberally construed), energy from waste, landfill gas, municipal solid waste, wave motion, tides, and geothermal power, and does not include energy derived from coal, oil, natural gas, or nuclear power. "Renewable energy" also includes the proportion of the thermal or electric energy from a facility that results from the co-firing of biomass. "Renewable energy" does not include waste heat from fossil-fired facilities or electricity generated from pumped storage but includes run-of-river generation from a combined pumped-storage and run-of-river facility.

"Renewable thermal energy" means the thermal energy output from (i) a renewable-fueled combined heat and power generation facility that is (a) constructed, or renovated and improved, after January 1, 2012, (b) located in the Commonwealth, and (c) utilized in industrial processes other than the combined heat and power generation facility or (ii) a solar energy system, certified to the OG-100 standard of the Solar Ratings and Certification Corporation or an equivalent certification body, that (a) is constructed, or renovated and improved, after January 1, 2013, (b) is located in the Commonwealth, and (c) heats water or air for residential, commercial, institutional, or industrial purposes.

"Renewable thermal energy equivalent" means the electrical equivalent in megawatt hours of renewable thermal energy calculated by dividing (i) the heat content, measured in British thermal units (BTUs), of the renewable thermal energy at the point of transfer to a residential, commercial,

institutional, or industrial process by (ii) the standard conversion factor of 3.413 million BTUs per megawatt hour.

"Renovated and improved facility" means a facility the components of which have been upgraded to enhance its operating efficiency.

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

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

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

"Rooftop solar installation" means a distributed electric generation facility, storage facility, or generation and storage facility utilizing energy derived from sunlight, with a rated capacity of not less than 50 kilowatts, that is installed on the roof structure of an incumbent electric utility's commercial or industrial class customer, including host sites on commercial buildings, multifamily residential buildings, school or university buildings, and buildings of a church or religious body.

"Solar energy system" means a system of components that produces heat or electricity, or both, from sunlight.

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

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

"Total annual energy savings" means (i) the total combined kilowatt-hour savings achieved by electric utility energy efficiency and demand response programs and measures installed in that program year, as well as savings still being achieved by measures and programs implemented in prior years, or (ii) savings attributable to newly installed combined heat and power facilities, including waste heat-to-power facilities, and any associated reduction in transmission line losses, provided that biomass is not a fuel and the total efficiency, including the use of thermal energy, for eligible combined heat and power facilities must meet or exceed 65 percent and have a nameplate capacity rating of less than 25 megawatts.

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

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

"Waste heat to power" means a system that generates electricity through the recovery of a qualified waste heat resource.

§ 56-596.2. Energy efficiency policy and programs; financial assistance for low-income customers.

A. Notwithstanding subsection G of § 56-580, or any other provision of law, each incumbent investor-owned electric utility shall develop proposed energy efficiency programs. Any program shall provide for the submission of a petition or petitions for approval to design, implement, and operate energy efficiency programs pursuant to subdivision A 5 c of § 56-585.1. At least 15 percent of such proposed costs of energy efficiency programs shall be allocated to programs designed to benefit low-income, elderly, or disabled individuals or veterans.

B. Notwithstanding any other provision of law, each investor-owned incumbent electric utility shall implement energy efficiency programs and measures to achieve the following total annual energy savings:

1. For Phase I electric utilities:

a. In calendar year 2022, at least 0.5 percent of the average annual energy jurisdictional retail sales by that utility in 2019;

b. In calendar year 2023, at least 1.0 percent of the average annual energy jurisdictional retail sales by that utility in 2019;

c. In calendar year 2024, at least 1.5 percent of the average annual energy jurisdictional retail sales by that utility in 2019; and

d. In calendar year 2025, at least 2.0 percent of the average annual energy jurisdictional retail sales by that utility in 2019;

2. For Phase II electric utilities:

a. In calendar year 2022, at least 1.25 percent of the average annual energy jurisdictional retail sales by that utility in 2019;

b. In calendar year 2023, at least 2.5 percent of the average annual energy jurisdictional retail sales by that utility in 2019;

c. In calendar year 2024, at least 3.75 percent of the average annual energy jurisdictional retail sales by that utility in 2019; and

d. In calendar year 2025, at least 5.0 percent of the average annual energy jurisdictional retail sales by that utility in 2019; and

3. For the time period 2026 through 2028, *the Commission shall, after notice and hearing, establish new energy efficiency savings targets measured as a percentage of the average annual energy jurisdictional retail sales by that utility in 2019.*

4. *For the time period 2029 through 2031, and for every successive three-year period thereafter, the Commission shall establish new energy efficiency savings targets measured as a percentage of the average annual energy jurisdictional retail sales by that utility in 2019, which shall be the greatest level of energy savings that the Commission finds is feasible and cost-effective pursuant to the Commission's cost-effectiveness test regulations. To assist the Commission in setting such targets, the Commission shall retain a qualified expert, compensated pursuant to subdivision E of § 56-592.1, to independently conduct an energy efficiency potential study for each Phase I and Phase II Utility's service territory, and each such utility shall provide to the Commission and its expert any information necessary to complete such study if such information is reasonably available. For every subsequent three-year period, the Commission shall retain an expert, compensated pursuant to subdivision E of § 56-592.1, to update the energy efficiency potential study for each Phase I and Phase II Utility's service territory. A utility may recovery any costs it incurs to assist the Commission with the energy efficiency potential study if the Commission finds such costs are reasonable and prudent. Such costs shall not be considered when determining whether an energy efficiency measure or program is cost-effective.* In advance of the effective date of such targets, the Commission shall, after notice and opportunity for hearing, initiate proceedings to establish such targets. As part of such proceeding, the Commission shall consider the feasibility of achieving energy efficiency goals and future energy efficiency savings through cost-effective programs and measures. ~~The Commission shall annually review the feasibility of the energy efficiency program savings in this section and report to the Chairs of the House Committee on Labor and Commerce and the Senate Committee on Commerce and Labor and the Secretary of Natural and Historic Resources and the Secretary of Commerce and Trade on such feasibility by October 1, 2022, and each year thereafter.~~

C. The projected costs for the utility to design, implement, and operate such energy efficiency programs and portfolios of programs shall be no less than an aggregate amount of \$140 million for a Phase I Utility and \$870 million for a Phase II Utility for the period beginning July 1, 2018, and ending July 1, 2028, including any existing approved energy efficiency programs. In developing such portfolio of energy efficiency programs and portfolios of programs, each utility shall utilize a stakeholder process, to be facilitated by an independent monitor compensated under the funding provided pursuant to subsection E of § 56-592.1, to provide input and feedback on (i) the development of such energy efficiency programs and portfolios of programs; (ii) compliance with the total annual energy savings set forth in this subsection and how such savings affect utility integrated resource plans; (iii) recommended policy reforms by which the General Assembly or the Commission can ensure maximum and cost-effective deployment of energy efficiency technology across the Commonwealth; and (iv) best practices for evaluation, measurement, and verification for the purposes of assessing compliance with the total annual energy savings set forth in subsection B. Utilities shall utilize the services of a third party to perform evaluation, measurement, and verification services to determine a utility's total annual savings as required by this subsection, as well as the annual and lifecycle net and gross energy and capacity savings, related emissions reductions, and other quantifiable benefits of each program; total customer bill savings that the programs and portfolios produce; and utility spending on each program, including any associated administrative costs. The third-party evaluator shall include and review each utility's avoided costs and cost-benefit analyses. The findings and reports of such third parties shall be concurrently provided to both the Commission and the utility, and the Commission shall make each such final annual report easily and publicly accessible online. Such stakeholder process shall include the participation of representatives from each utility, relevant directors, deputy directors, and staff members of the Commission who participate in approval and oversight of utility energy efficiency savings programs, the office of Consumer Counsel of the Attorney General, the Department of Energy, energy efficiency program implementers, energy efficiency providers, residential and small business customers, and any other interested stakeholder whom the independent monitor deems appropriate for inclusion in such process. The independent monitor shall convene meetings of the participants in the stakeholder process not less frequently than twice in each calendar year during the period beginning July 1, 2019, and

306 ending July 1, 2028. The independent monitor shall report on the status of the energy efficiency
307 stakeholder process, including (a) the objectives established by the stakeholder group during this process
308 related to programs to be proposed, (b) recommendations related to programs to be proposed that result
309 from the stakeholder process, and (c) the status of those recommendations, in addition to the petitions
310 filed and the determination thereon, to the Governor, the Commission, and the Chairmen of the House
311 Committee on Labor and Commerce and the Senate Committee on Commerce and Labor on July 1,
312 2019, and annually thereafter through July 1, 2028.

313 D. Nothing in this section shall apply to any entity organized under Chapter 9.1 (§ 56-231.15 et
314 seq.).

315 2. That, no later than September 30, 2025, the State Corporation Commission (the Commission)
316 shall promulgate regulations establishing a single, consistent cost-effectiveness test for use in
317 evaluating proposed energy efficiency programs. In developing this test, the Commission shall (i)
318 use the cost-benefit analysis framework and process contained in the National Energy Screening
319 Project's National Standard Practice Manual for Benefit-Cost Analysis of Distributed Energy
320 Resources; (ii) utilize a stakeholder process to develop such regulations, facilitated by an
321 independent monitor with technical assistance provided by a group with experience in the process
322 set forth in the National Practice Manual for Assessing Cost-Effectiveness of Distributed Energy
323 Resources, compensated under the funding provided pursuant to subdivision E of § 56-592.1 of the
324 Code of Virginia; and (iii) design such regulations to further the Commonwealth's energy policy
325 requirements and goals, including furthering compliance with the standards set forth under
326 § 56-596.2 of the Code of Virginia, as amended by this act.

327 3. That each Phase I and Phase II Utility, as those terms are defined in subdivision A 1 of
328 § 56-585.1 of the Code of Virginia, shall track, quantify, and report to the State Corporation
329 Commission the incremental annual savings, as defined in § 56-576 of the Code of Virginia, as
330 amended by this act, achieved by such utility's energy efficiency programs in such utility's annual
331 evaluation, measurement, and verification reports.