

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

AT RICHMOND, JUNE 1, 2017

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PETITION OF

VIRGINIA ELECTRIC AND POWER COMPANY

CASE NO. PUE-2016-00111

For approval to implement new, and to extend
existing, demand-side management programs
and for approval of two updated
rate adjustment clauses pursuant to
§ 56-585.1 A 5 of the Code of Virginia

FINAL ORDER

On October 3, 2016, Virginia Electric and Power Company d/b/a Dominion Energy Virginia ("Dominion Energy Virginia" or "Company"),¹ pursuant to § 56-585.1 A 5 of the Code of Virginia ("Code"), the Rules Governing Utility Rate Applications and Annual Informational Filings² of the State Corporation Commission ("Commission"), the Commission's Rules Governing Utility Promotional Allowances,³ the Commission's Rules Governing Cost/Benefit Measures Required for Demand-Side Management Programs,⁴ the directive contained in Ordering Paragraph (4) of the Commission's April 19, 2016 Final Order in Case No. PUE-2015-00089,⁵ and the Commission's August 4, 2016 Order Granting Motion,⁶ filed with the

¹ The Company was formerly doing business as Dominion Virginia Power, but officially changed the name to "Virginia Electric and Power Company d/b/a Dominion Energy Virginia" on May 12, 2017.

² 20 VAC 5-201-10 *et seq.*

³ 20 VAC 5-303-10 *et seq.*

⁴ 20 VAC 5-304-10 *et seq.*

⁵ *Petition of Virginia Electric and Power Company, For approval to implement new demand-side management programs, for approval to continue a demand-side management program, and for approval of two updated rate adjustment clauses pursuant to § 56-585.1 A 5 of the Code of Virginia*, Case No. PUE-2015-00089, Doc. Con. Cen. No. 160420196, Final Order (Apr. 19, 2016) ("2016 DSM Order").

Commission its petition for approval to implement new demand-side management ("DSM") programs, for approval to extend existing DSM programs, and for approval of two updated rate adjustment clauses ("Petition").⁷

In its Petition and Supplemental Testimony, Dominion Energy Virginia seeks approval to implement two new DSM programs as the Company's "Phase VI" programs.⁸ Specifically, the Company requested that the Commission permit the Company to implement the following proposed DSM programs for the five-year period of July 1, 2017, through June 30, 2022, subject to future extensions as requested by the Company and granted by the Commission:

- Residential Home Energy Assessment Program; and
- Non-residential Prescriptive Program.⁹

According to the Company, both of its proposed Phase VI programs are energy efficiency programs as defined by § 56-576 of the Code.¹⁰ The Company originally proposed a five-year spending cap for the Phase VI programs in the amount of \$177,658,296.¹¹

⁶ *Petition of Virginia Electric and Power Company, For approval to implement new demand-side management programs, for approval to continue a demand-side management program, and for approval of two updated rate adjustment clauses pursuant to § 56-585.1 A 5 of the Code of Virginia*, Case No. PUE-2015-00089, Doc. Con. Cen. No. 160810154, Order Granting Motion (Aug. 4, 2016).

⁷ Supporting testimony and other documents also were filed with the Petition. On October 24, 2016, the Company filed the Motion of Virginia Electric and Power Company for Leave to File Supplemental Direct Testimony, along with the Supplemental Direct Testimony and Supplemental Schedule 1 of Michael T. Hubbard ("Supplemental Testimony").

⁸ Exhibit ("Ex.") 2 (Petition) at 2.

⁹ *Id.* at 5.

¹⁰ *Id.*

¹¹ *Id.* at 6. This cost is inclusive of operating costs; estimated revenue reductions related to energy efficiency programs ("lost revenues"); common costs; return on capital expenditures; margins on operation and maintenance expenses; and evaluation, measurement and verification costs. The Company further proposes that spending within the cap be flexible among the Phase VI programs and requests the ability to exceed the spending cap by no more than 5%. *Id.*

Additionally, in its Petition, the Company requested approval to continue its Residential Heat Pump Upgrade Program and Non-residential Distributed Generation ("DG") Program for two years (through May 31, 2019) and five years (through May 31, 2022), respectively, subject to future extensions as requested by the Company and granted by the Commission.¹² The Residential Heat Pump Upgrade Program and the Non-residential DG Program were originally approved by the Commission in Case No. PUE-2011-00093 ("2011 DSM Proceeding").¹³ In its Petition in the current proceeding, the Company stated that the Residential Heat Pump Upgrade Program has not yet reached the anticipated five-year participation level, nor has it exhausted the total of the previously approved cost cap of \$90 million for the residential programs approved in Case No. PUE-2011-00093.¹⁴ The Company is not requesting any additional funding above the original total cost cap as part of its request to extend the Residential Heat Pump Upgrade Program for an additional two years.¹⁵

In the 2011 DSM Proceeding, the Commission approved a total cost cap of \$14.2 million for the Non-residential DG Program. According to the Petition, the Company has spent the majority of this cost cap and, therefore, the Company requested a new five-year cost cap of \$4,853,946 for the Non-residential DG Program.¹⁶

Further, the Company requested approval of an annual update to continue two rate adjustment clauses, Riders C1A and C2A, for the July 1, 2017 through June 30, 2018 rate year

¹² *Id.* at 2, 6-7.

¹³ *Application of Virginia Electric and Power Company, For approval to implement new demand-side management programs and for approval of two updated rate adjustment clauses pursuant to § 56-585.1 A 5 of the Code of Virginia*, Case No. PUE-2011-00093, 2012 S.C.C. Ann. Rept. 298, Order (Apr. 30, 2012).

¹⁴ Ex. 2 (Petition) at 7.

¹⁵ *Id.*

¹⁶ *Id.*

("Rate Year") for recovery of: (i) Rate Year costs associated with programs previously approved by the Commission in Case No. PUE-2011-00093 ("Phase II programs"), Case No. PUE-2013-00072 ("Phase III programs"),¹⁷ Case No. PUE-2014-00071 ("Phase IV programs"),¹⁸ and Case No. PUE-2015-00089 ("Phase V program"); (ii) calendar year 2015 true-up of costs associated with the Company's approved Phase II, Phase III and Phase IV programs; (iii) Rate Year costs and calendar year 2015 true-up costs associated with the Company's Electric Vehicle Pilot Program, which was approved by the Commission in Case No. PUE-2011-00014;¹⁹ and (iv) Rate Year costs associated with the Company's proposed Phase VI programs.²⁰

The cost components for Riders C1A and C2A are the projected revenue requirement, which includes operating expenses that are projected to be incurred during the Rate Year, and a monthly true-up adjustment, which compares actual costs for the 2015 calendar year to the actual revenues collected during the same period.²¹ In the Petition, the Company proposed a total revenue requirement for Riders C1A and C2A of \$45,405,425.²²

¹⁷ *Petition of Virginia Electric and Power Company, For approval to implement new demand-side management programs and for approval of two updated rate adjustment clauses pursuant to § 56-585.1 A 5 of the Code of Virginia*, Case No. PUE-2013-00072, 2014 S.C.C. Ann. Rept. 289, Final Order (Apr. 29, 2014) ("2014 DSM Order").

¹⁸ *Petition of Virginia Electric and Power Company, For approval to implement new demand-side management programs and for approval of two updated rate adjustment clauses pursuant to § 56-585.1 A 5 of the Code of Virginia*, Case No. PUE-2014-00071, 2015 S.C.C. Ann. Rept. 230, Final Order (Apr. 24, 2015).

¹⁹ *Application of Virginia Electric and Power Company, For approval to establish an electric vehicle pilot program pursuant to § 56-234 of the Code of Virginia*, Case No. PUE-2011-00014, 2011 S.C.C. Ann. Rept. 436, Order Granting Approval (July 11, 2011).

²⁰ Ex. 2 (Petition) at 2, 8; Ex. 3 (Cable Direct) at 1-2.

²¹ Ex. 2 (Petition) at 10.

²² *Id.* at 11.

For purposes of calculating the Rate Year projected revenue requirement, the Company used a general rate of return on common equity ("ROE") of 10.5%.²³ For the 2015 calendar year monthly true-up adjustment, the Company used a general ROE of 10.0%, which was approved by the Commission in Case No. PUE-2013-00020.²⁴

On October 28, 2016, the Commission issued an Order for Notice and Hearing, which, as amended by the Order Granting Extension, dated February 14, 2017, and Order Granting Motions, dated March 13, 2017, among other things, docketed the Petition; required Dominion Energy Virginia to publish notice of its Petition; gave interested persons the opportunity to comment on, or participate in, the proceeding; and scheduled a public hearing on non-ROE aspects of the Company's Petition and a separate public hearing on the ROE issues in this case. The following parties filed notices of participation in this proceeding: the Virginia Energy Efficiency Council ("VAEEC"); Appalachian Voices, the Natural Resources Defense Council, and the Virginia Chapter of the Sierra Club (collectively, "Environmental Respondents"); and the Office of Attorney General's Division of Consumer Counsel ("Consumer Counsel").

The VAEEC, Environmental Respondents, and the Commission Staff ("Staff") filed the testimony and exhibits of their expert witnesses. Subsequently, the Company filed its rebuttal testimony. The Commission held a public and evidentiary hearing on non-ROE issues on March 28 and 29, 2017. Dominion Energy Virginia, Staff, Consumer Counsel, VAEEC, and the Environmental Respondents participated in the hearing. At the hearing, the Commission received testimony from witnesses on behalf of the participants and also received testimony from

²³ *Id.* at 9.

²⁴ See *id.*; Ex. 13 (Givens Direct) at 5; *Application of Virginia Electric and Power Company, For a 2013 biennial review of the rates, terms and conditions for the provision of generation, distribution and transmission services pursuant to § 56-585.1 A of the Code of Virginia*, Case No. PUE-2013-00020, 2013 S.C.C. Ann. Rept. 371, Final Order (Nov. 26, 2013).

seven public witnesses. On April 28, 2017, Dominion Energy Virginia, the VAEEEC, Environmental Respondents, Consumer Counsel, and Staff filed post-hearing briefs.

The Commission held a public and evidentiary hearing on ROE issues on March 29, 2017. By Order issued April 14, 2017, the Commission approved a general ROE of 9.4% for purposes of calculating the Rate Year projected revenue requirement for Riders C1A and C2A. The Commission found this ROE is supported by the record, is fair and reasonable to the Company within the meaning of the Code, permits the attraction of capital on reasonable terms, fairly compensates investors for the risks assumed, enables the Company to maintain its financial integrity, and satisfies all applicable constitutional standards.²⁵

NOW THE COMMISSION, upon consideration of this matter, is of the opinion and finds as follows.

Code of Virginia

Dominion Energy Virginia seeks approval to continue the two rate adjustment clauses, Riders C1A and C2A, pursuant to § 56-585.1 A 5 of the Code, which allows a utility to petition the Commission for approval of a rate adjustment clause for the timely and current recovery from customers of the following costs:

- 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;
- c. Projected and actual costs for the utility to design, implement, and operate energy efficiency programs, including a margin to be recovered on operating expenses, which margin for the purposes of

²⁵ *Application of Virginia Electric and Power Company, For approval to implement new, and to extend existing, demand-side management programs and for approval of two updated rate adjustment clauses pursuant to § 56-585.1 A 5 of the Code of Virginia, Case No. PUE-2016-00111, Doc. Con. Cen. No. 170430042, Order (Apr. 14, 2017) at 7-8 ("April 14, 2017 Order").*

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

Section 56-576 of the Code defines "in the public interest" as follows:

"In the public interest," for purposes of assessing energy efficiency programs, describes an energy efficiency program if, among other factors, the net present value of the benefits exceeds the net present value of the costs as determined by the Commission upon consideration of the following four tests: (i) the Total Resource Cost Test; (ii) the Utility Cost Test (also referred to as the Program Administrator Test); (iii) the Participant Test; and (iv) the Ratepayer Impact Measure Test. Such determination shall include an analysis of all four tests, and a program or portfolio of programs shall not be rejected based solely on the results of a single test. In addition, an energy efficiency program may be deemed to be "in the public interest" if the program provides measurable and verifiable energy savings to low-income customers or elderly customers.

Phase VI Programs

Consistent with our decision in Dominion Energy Virginia's 2011 DSM Proceeding and subsequent proceedings, we evaluated the Company's Petition to determine whether the proposed Phase VI programs are "in the public interest" under § 56-585.1 A 5 of the Code by considering the four tests discussed in § 56-576 of the Code (Total Resource Cost ("TRC") Test, Utility Cost Test, Participant Test, and Ratepayer Impact Measure ("RIM") Test), as well as other relevant factors. As we have stated in previous orders regarding the Company's DSM programs, we are

sensitive to the impact of the proposed DSM programs on customers' bills, particularly the bills of customers not participating in the programs.²⁶

We find that the Company has not established that the Phase VI programs, as proposed, are in the public interest. Specifically, we find that the Non-residential Prescriptive Program is only in the public interest with modifications to the program. We further find that the Residential Home Energy Assessment Program is not in the public interest and thus deny the program at this time.

Non-residential Prescriptive Program

The Company's proposed Phase VI Non-residential Prescriptive Program replaces the Phase II Non-residential Energy Audit and Non-residential Duct Testing and Sealing Program, which are expiring in May 2017, with the addition of several new measures.²⁷ As proposed, the Non-residential Prescriptive Program is open to all non-residential customers with average monthly demand of 10 megawatts or less, other than those who are statutorily exempt or have opted out of participation.²⁸

Consistent with our discussion regarding the Company's Phase V Small Business Improvement Program in the Final Order in Case No. PUE-2015-00089,²⁹ the Commission shares the concerns expressed by Staff in the present case that the Company's projected savings associated with the Non-residential Prescriptive Program may be too high in light of the fact that the estimated average annual savings per participant either exceeds, or is an unrealistically high

²⁶ Certain large commercial and industrial customers are exempted from paying for these programs under § 56-585.1 A 5 of the Code. Accordingly, the costs fall most heavily on residential and small business customers who make up the majority of the Company's customers.

²⁷ See Ex. 4 (Hubbard Direct) at 13; Ex. 9 (Comparison of Non-residential Programs); Tr. 111-12.

²⁸ Ex. 9 (Comparison of Non-residential Programs); Ex. 23 (Pratt Direct), Attachment No. BSP-5, pages 1-2.

²⁹ 2016 DSM Order at 7-8.

percentage of, the average annual usage of the majority of customers eligible (and likely) to participate in the Non-residential Prescriptive Program, which calls into question the accuracy and reliability of the cost/benefit analyses offered in support of this program.³⁰ It is evident that in order to achieve the Company's estimated average annual savings per participant of 128,984 kWh, a few very large non-residential customers would have to realize a large amount of savings; however, customers in those rate classes would not likely participate in the measures that provide the largest percentage of estimated savings in the Company's program design.³¹ On the contrary, the Company's program design contemplates that the majority of customers expected to participate in the Non-residential Prescriptive Program would come from the GS-2 rate schedule, who would also be the most likely customers to participate in the measures providing the greatest amount of estimated savings.³² We find that an estimated average annual savings per participant that is approximately 44-45% of the average annual usage of the customers most likely to participate in the Non-residential Prescriptive Program³³ is unrealistically high, which calls into question the accuracy of the Company's cost/benefit analyses for this program.

³⁰ See Ex. 23 (Pratt Direct) at 22-23; Tr. 248-49, 279-80. The estimated average annual savings per participant referred to herein is the 128,984 kilowatt-hours ("kWh") presented in the Company's rebuttal testimony based on modified door size assumptions for the proposed Strip Curtain Measure, consistent with Staff's recommendations. See Ex. 28 (Hubbard Rebuttal) at 22, 25; Ex. 34 (Kesler Rebuttal), Rebuttal Schedule 11, page 2; Ex. 23 (Pratt Direct) at 19-20.

³¹ Tr. 244-45; 254. See Ex. 25 (Company's Response to Staff Interrogatory No. 1-4 and Attachment Staff Set 1-4 (4) (Corr.) (Non-Residential Program Backup Data)), regarding the proposed refrigeration measures, including the Strip Curtain Measures, which provide about 50% of the estimated program savings. Tr. 254. As shown in Ex. 25, these measures are geared toward smaller customers like convenience stores and restaurants, and such customers would likely be within the GS-2 rate schedule. Tr. 255, 257-58, 277-78.

³² Tr. 248-49, 279-80. See also Ex. 24 (Revised Attachment No. BSP-7) and n. 31, *supra*.

³³ See Ex. 23 (Pratt Direct) at 23; Tr. 379-80.

The Commission also notes that the residential classes bear the majority of the costs of non-residential DSM programs without receiving a commensurate share of the benefits available to the non-residential customers who participate in such programs. Accordingly, in order to be in the public interest, the Commission finds that the Non-residential Prescriptive Program shall be approved for the five-year period of July 1, 2017, through June 30, 2022, but with a total cost cap of \$36.0 million.³⁴ This amount represents the full year-one estimated costs of the program (in recognition that the Company has incurred design and other start-up costs) and approximately 50% of the remaining costs requested by the Company for this program.³⁵ Furthermore, the measures approved for this program are limited to those described in the Company's Petition and testimony,³⁶ and the Company must obtain approval from the Commission prior to adding any measures not described therein.

Residential Home Energy Assessment Program

Based on the evidence in this case, the Commission finds that the Residential Home Energy Assessment Program is not in the public interest and approval is therefore denied. We

³⁴ The calculation of the approved budget for the Non-residential Prescriptive Program includes a change from the 9.6% ROE originally used by the Company to calculate the total cost of the program to an ROE of 9.4%, which the Commission found to be reasonable in its April 14, 2017 Order. The cost cap approved herein includes all potential costs of the programs – including, but not limited to, operating costs; lost revenues; common costs; return on capital expenditures; margins on operation and maintenance; and evaluation, measurement and verification costs. This cap may be exceeded by a maximum of 5% without being in violation of this Order. However, as discussed in our Order in the 2011 DSM Proceeding, Dominion Energy Virginia must provide support to establish the reasonableness of actual expenditures in subsequent cases involving its DSM Programs. As we stated in our Order in the 2011 DSM Proceeding, we do not guarantee recovery by Dominion Energy Virginia of the total amount of the approved cost cap. *See* 2012 S.C.C. Ann. Rept. at 301, n. 20. Finally, the Company has not requested herein – nor have we approved – recovery of any lost revenues for these programs. Ex. 2 (Petition) at 10. The Company represented at the hearing that it would not seek recovery of lost revenues for periods prior to a previous true-up for Rider C1A and Rider C2A. *See* Tr. 362.

³⁵ This is consistent with prior DSM orders wherein the Commission reduced the requested cost cap for DSM programs where the Commission questioned the reasonableness of certain assumptions and the resulting estimated energy savings associated with such programs. *See* 2014 DSM Order, 2014 S.C.C. Ann. Rept. at 293; 2016 DSM Order at 8.

³⁶ *See* Ex. 4 (Hubbard Direct) at 13, 15, Schedule 1, page 1; Ex. 9 (Comparison of Non-residential Programs).

reached our decision after considering the four tests discussed in § 56-576 of the Code, above. We note that, according to the Company's RIM score of 0.39 for this program, the costs to non-participants far exceed the system-wide benefits.³⁷ Furthermore, at a ratio of 1.22, the TRC Test for the Residential Home Energy Assessment Program, which measures the impact to the utility and program participants,³⁸ does not significantly offset the low RIM score.³⁹ Moreover, a comparison of the net present value ("NPV") of the tests does not alter our conclusion. For example, Company witness Kesler states that "[t]he absolute value of the NPV of the test may be important when evaluating the RIM test with respect to the relative amount of rate impact any particular Program might have on the Company's customer base."⁴⁰ In this regard, the NPV of the RIM Test is *negative* \$120,966,000. In comparison, none of the other tests has a *positive* NPV that exceeds this amount.⁴¹ In sum, we find that the costs to non-participants unreasonably exceed the projected benefits of the proposed Residential Home Energy Assessment Program.

Residential Heat Pump Upgrade Program

For the same reasons stated above with regard to the proposed Phase VI Residential Home Energy Assessment Program, based on the evidence in this case, the Commission finds that the Residential Heat Pump Upgrade Program is not in the public interest and approval of the requested extension of this program is therefore denied. We note that, according to the

³⁷ See Ex. 34 (Kesler Rebuttal), Rebuttal Schedule 2; Ex. 10 (Kesler Direct) at 9; Ex. 23 (Pratt Direct), Attachment No. BSP-1, page 3.

³⁸ See Ex. 10 (Kesler Direct) at 8.

³⁹ The RIM Test includes cross-subsidies between program participants and non-participants, which are not accounted for in the TRC Test. See Ex. 23 (Pratt Direct), Attachment No. BSP-1, page 4.

⁴⁰ Ex. 10 (Kesler Direct) at 11.

⁴¹ The NPVs under the Utility, TRC, and Participant Tests are \$11,602,000, \$13,975,000, and \$112,676,000, respectively. Ex. 34 (Kesler Rebuttal), Rebuttal Schedule 2.

Company's RIM score of 0.47 for this program, the costs to non-participants significantly exceed the system-wide benefits.⁴² Furthermore, at a ratio of 1.02, the TRC Test for the Residential Heat Pump Upgrade Program does not significantly offset the low RIM score.⁴³ Additionally, a comparison of the NPV of the tests for this program also does not alter our finding. The NPV of the net *costs* to ratepayers under the RIM test in the amount of \$9,899,000 exceeds the NPV of the net *benefits* under each of the remaining three tests, including the Participant test.⁴⁴ We also note that the Company's going-forward cost/benefit ratios for the Residential Heat Pump Upgrade Program reflect reductions in the Utility Cost Test, TRC Test, and RIM Test ratios from the original filing in the 2011 DSM Proceeding.⁴⁵

Lastly, we note that the actual cumulative participation, energy savings, and demand savings for the Phase II Residential Heat Pump Upgrade program for the years 2012 through 2015 were significantly less than the forecasted levels at the time of the Company's original filing in the 2011 DSM Proceeding. Cumulative participation through 2015 was only 20% of the original projected level of participation; cumulative energy savings was only 34% of the original projected level; and cumulative demand savings was only 35% of the original projected level.⁴⁶

Non-residential Distributed Generation Program

Based on the evidence in this case, the Commission finds that the Non-residential DG Program is in the public interest. Accordingly, we find that the Non-residential DG Program shall be continued through May 31, 2022, with a five-year cost cap of \$4,853,946.

⁴² See Ex. 34 (Kesler Rebuttal), Rebuttal Schedule 3, page 1.

⁴³ *Id.*

⁴⁴ *Id.*

⁴⁵ Ex. 23 (Pratt Direct) at 16, Attachment No. BSP-6.

⁴⁶ Ex. 23 (Pratt Direct) at 15-16, Attachment No. BSP-5, page 6 of 12.

Phase V Small Business Improvement Program

During the course of this proceeding, Staff discovered that the Company is offering refrigeration measures as part of its Phase V Small Business Improvement Program ("SBI Program") that the Commission approved in the 2016 DSM Order. It is the Commission Staff's position that the SBI Program, as proposed in Case No. PUE-2015-00089, did not include refrigeration measures and the Commission's approval of the SBI Program did not encompass such measures.⁴⁷ After a review of the record we clarify that refrigeration measures will not be part of the SBI Program going forward.⁴⁸ We therefore find that the Company shall not recover any rebate amounts associated with refrigeration measures installed after the date of this order. This shall be reflected in future true-up factor computations for the associated time period.

Staff Audit Issues

We adopt Staff's recommendation that the Company conduct an internal audit of the controls surrounding incentive and rebate payments, with regard to each of the Company's DSM programs.⁴⁹ The Company shall provide to the Staff the audit report with supporting documentation, including a detailed description of how the audit findings have been addressed.

⁴⁷ See Staff's Post-Hearing Brief at 12-14.

⁴⁸ See Tr. 275-76, 297-99, 303. In Case No. PUE-2012-00100, the Company requested approval of an administrative process whereby the Staff could approve limited modifications to the design of previously approved DSM programs outside of a formal proceeding, including the modification, removal or addition of measures. The Commission rejected the Company's proposal, stating that "[t]he proposed administrative process would require the Company to submit 'evidence' and 'proof,' which Staff would then use to determine whether to allow changes to DSM Programs previously approved by the Commission." We found that this "would afford too much discretion to Staff who alone would be asked to make final decisions on issues which are often in dispute and fully litigated in hearings..." such as "whether the energy and/or capacity savings of the program would increase or whether the costs or benefits would be reassigned from one customer group to another." *Petition of Virginia Electric and Power Company, For approval to extend two demand-side management programs and for approval of two updated rate adjustment clauses pursuant to § 56-585.1 A 5 of the Code of Virginia*, Case No. PUE-2012-00100, 2013 S.C.C. Ann. Rept. 285, 288, Order (Apr. 19, 2013). We reiterate that the Company must obtain approval from the Commission prior to adding measures to previously approved DSM programs.

⁴⁹ Ex. 20 (Ellis Direct) at 25.

In addition, the Company shall continue to provide, with subsequent DSM filings, the following: (1) a description of the controls and procedures in place around rebate, incentive, and/or vendor payments for each of its approved DSM programs; (2) a discussion of any changes in these controls and procedures since the previous filing; and (3) a statement or other support for how the Company is ensuring these controls remain appropriate and are functioning correctly.

The Company also shall provide, in its next DSM filing, information outlining the fixed versus variable costs associated with each implementation vendor contract. We agree with Staff that this information will help the Commission to ensure that the Company's DSM programs are operated with sufficient price protections should the programs experience lower than anticipated participation.⁵⁰

Riders C1A and C2A

As is noted above, we approve the Non-residential Prescriptive Program for a five-year period, subject to a cost cap of \$36.0 million. We also approve the continuation of the Non-residential DG Program for a five-year period through May 31, 2022, subject to a cost cap of \$4,853,946.⁵¹

For purposes of calculating the monthly true-up adjustment for calendar year 2015, an ROE of 10.0% shall be utilized. As we held in the April 14, 2017 Order, for purposes of calculating the projected cost recovery factor, an ROE of 9.4% shall be utilized and shall be effective July 1, 2017, which is the effective date for Riders C1A and C2A. Further, a December 31, 2015 ratemaking capital structure shall be used to calculate the revenue

⁵⁰ *Id.* at 27.

⁵¹ Attached to this Order is a chart showing all approved DSM programs to date, both current and expired.

requirement.⁵² Accordingly, we approve a Rate Year credit of \$225,887 for Rider C1A and a revenue requirement of \$28,190,093 for Rider C2A, for a total revenue requirement of \$27,964,206.⁵³ Finally, we approve the Company's proposed cost allocation and rate design.⁵⁴

Accordingly, IT IS ORDERED THAT:

(1) The Company's Petition hereby is granted in part and denied in part as set forth herein.

(2) The Company forthwith shall file revised tariffs, designed to recover a Rate Year credit of \$225,887 for Rider C1A and revenue requirement of \$28,190,093 for Rider C2A, and terms and conditions of service and supporting workpapers with the Clerk of the Commission and with the Commission's Divisions of Public Utility Regulation and Utility Accounting and Finance, as necessary to comply with the directives set forth in this Final Order.

(3) Riders C1A and C2A as approved herein shall become effective for usage on and after July 1, 2017.

(4) Consistent with § 56-585.1 A 5 of the Code, the Company shall file its application to continue Riders C1A and C2A no later than October 3, 2017.

(5) Consistent with the Commission's directive in Case No. PUE-2013-00072, the Company is directed to submit, with every DSM filing going forward, an exhibit similar to Exhibit 5 in Case No. PUE-2013-00072. The Company shall work with Staff in preparing this pre-filed exhibit, which shall, at a minimum, contain the same categories of information included

⁵² See Ex. 13 (Givens Direct) at 9-10.

⁵³ We approve a total revenue requirement of \$27,964,207 for Riders C1A and C2A for the Rate Year associated with the proposed Phase VI Non-residential Prescriptive Program, the Phase V program, Phase IV programs, the Phase III programs, the Phase II programs, the Electric Vehicle Pilot Program, the extended Non-residential DG Program, and the calendar year 2015 true-up of costs.

⁵⁴ See Ex. 15 (Stephens Direct) at 3-5; Ex. 23 (Pratt Direct) at 29-30.

in Exhibit 5 for all DSM programs proposed by the Company as of the date of each subsequent DSM filing.

(6) Dominion Energy Virginia shall continue to file its annual evaluation, measurement and verification reports.

(7) This matter is continued.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to all persons on the official Service List in this matter. The Service List is available from the Clerk of the Commission, c/o Document Control Center, 1300 East Main Street, First Floor, Tyler Building, Richmond, Virginia 23219. A copy also shall be delivered to the Commission's Office of General Counsel and Divisions of Public Utility Regulation and Utility Accounting and Finance.

**Dominion Energy Virginia
Currently Approved & Expired DSM Programs¹**

Currently Approved Programs				
<u>Program</u>	<u>DSM Phase</u>	<u>Case No.</u>	<u>Costs Approved</u>	<u>Approval Ends</u>
Residential				
AC Cycling	Phase I	PUE-2009-00081	\$59.5 mil. ²	2013
		PUE-2012-00100	\$75.2 mil. ³	2016
		PUE-2015-00089	n/a ⁴	2021
Appliance Recycling	Phase IV	PUE-2014-00071	\$4.8 mil.	2018
Income & Age Qualifying Home Improvement ⁵	Phase IV	PUE-2014-00071	\$15.2 mil.	2018
Non-Residential				
Distributed Generation	Phase II	PUE-2011-00093	\$14.2 mil.	2017
		PUE-2016-00111	\$4.9 mil.	2022
Solar Window Film	Phase III	PUE-2013-00072	\$71.6 mil.	2019
Lighting Systems and Controls	Phase III	PUE-2013-00072		2019
Heating and Cooling Efficiency	Phase III	PUE-2013-00072		2019
Small Business Improvement ⁶	Phase V	PUE-2015-00089	\$23.5 mil.	2021
Non-Residential Prescriptive Program <i>(refrigeration measures, ENERGY STAR appliances, advanced power strip, kitchen fan VSD, HVAC tune-up, vending machine controls, strip curtains, duct testing & sealing)</i>	Phase VI	PUE-2016-00111	\$36 mil.	2022

¹ The information contained herein is derived from Ex. 4 (Hubbard Direct), Schedules 1 and 3, and the Commission's prior DSM orders.

² The total approved cost cap of \$59.5 mil. reflects a combined cost cap of the Lighting Program and AC Cycling Program.

³ The \$75.2 mil. reflects a combined cost cap of the AC Cycling Program (\$61.6 mil.) and Low Income Program (\$13.6 mil.).

⁴ The Company did not request additional funding for the AC Cycling Program in Case No. PUE-2015-00089 because this program is presently funded through the Company's base rates.

⁵ This program includes multiple measures. See the materials in Case No. PUE-2014-00071.

⁶ This program includes multiple measures. See the materials in Case No. PUE-2015-00089.

Dominion Energy Virginia
Currently Approved & Expired DSM Programs

Expired Programs				
<u>Program</u>	<u>DSM Phase</u>	<u>Case No.</u>	<u>Costs Approved</u>	<u>Date Ended</u>
Residential				
Lighting	Phase I	PUE-2009-00081	\$59.5 mil. ¹	2011
Low Income ²	Phase I	PUE-2009-00081	\$27.4 mil.	2013
		PUE-2012-00100	\$75.2 mil. ³	2014
Home Energy Checkup ⁴	Phase II	PUE-2011-00093	\$90.0 mil.	2017 (May 31)
Duct Testing & Sealing	Phase II	PUE-2011-00093		2017 (May 31)
Heat Pump Upgrade	Phase II	PUE-2011-00093		2017 (May 31)
Heat Pump Tune-up	Phase II	PUE-2011-00093		2017 (May 31)
Non-Residential				
Lighting	Phase I	PUE-2009-00081	\$15.4 mil.	2012
Commercial HVAC Upgrade	Phase I	PUE-2009-00081		2012
Energy Audit ⁵	Phase II	PUE-2011-00093	\$45.0 mil.	2017 (May 31)
Duct Testing & Sealing	Phase II	PUE-2011-00093		2017 (May 31)

¹ The total approved cost cap of \$59.5 mil. reflects a combined cost cap of the Lighting Program and AC Cycling Program.

² This program included multiple measures. See the materials in Case Nos. PUE-2009-00081 and PUE-2012-00100.

³ The \$75.2 mil. reflects a combined cost cap of the AC Cycling Program (\$61.6 mil.) and Low Income Program (\$13.6 mil.).

⁴ This program included multiple measures. See the materials in Case No. PUE- 2011-00093.

⁵ This program included multiple measures. See the materials in Case No. PUE- 2011-00093.