

Department of Planning and Budget 2020 Fiscal Impact Statement

1. **Bill Number:** HB1526

House of Origin Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. **Patron:** Sullivan

3. **Committee:** Passed both Houses.

4. **Title:** Electric utility regulation; environmental goals.

5. **Summary:** Establishes a schedule by which Dominion Energy Virginia and American Electric Power are required to retire electric generating units located in the Commonwealth that emit carbon as a byproduct of combusting fuel to generate electricity and by which they are required to construct, acquire, or enter into agreements to purchase generating capacity located in the Commonwealth using energy derived from sunlight or onshore wind. The measure replaces the existing voluntary renewable energy portfolio system (RPS) program with a mandatory RPS that applies to electric utilities and licensed competitive suppliers. Under the mandatory RPS, utilities and suppliers are required to produce their electricity from 100 percent renewable sources by 2045 for Dominion Energy Virginia and by 2050 for American Electric Power. A utility or supplier that does not meet its targets is required to pay a specific deficiency payment or purchase renewable energy certificates. The proceeds from the deficiency payments are to be deposited into an account administered by the Department of Mines, Minerals and Energy, which is directed to distribute specific percentages of the moneys to job training and renewable energy programs in historically-disadvantaged communities, energy efficiency measures, and administrative costs.

The bill also requires, by 2035, American Electric Power and Dominion Energy Virginia to construct or acquire 400 and 2700 megawatts of energy storage capacity, respectively; (ii) establishes an energy efficiency standard under which each investor-owned incumbent electric utility is required to achieve incremental annual energy efficiency savings that start in 2022 at 0.25 percent of the average annual energy retail sales by that utility in 2019 and increase annually. The bill establishes requirements regarding the development by Dominion Energy Virginia of qualified offshore wind projects having an aggregate rated capacity of not less than 5,200 megawatts by January 1, 2034. In constructing any such facility, the utility shall (a) identify options for utilizing local workers; (b) identify the economic development benefits of the project for the Commonwealth, including capital investments and job creation; (c) consult with relevant governmental entities, including the Commonwealth's Chief Workforce Development Officer and the Virginia Economic Development Partnership, on opportunities to advance the Commonwealth's workforce and economic development goals, including furtherance of apprenticeship and other workforce training programs; and (d) give priority to the hiring of local workers, including workers from historically economically disadvantaged communities. The provisions require each utility to include, and the Commission to consider, in any application to construct a new generating facility the social

cost of carbon, as determined by the Commission, as a benefit or cost, whichever is appropriate.

The bill removes a provision that declares that planning and development activities for new nuclear generation facilities are in the public interest. In addition, the bill removes provisions that authorize nuclear and offshore wind generating facilities to 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. The bill increases the limit from 5000 megawatts to 16,100 megawatts on those solar and onshore wind generation facilities that are declared to be in the public interest and increases the limit from 16 megawatts to 3000 megawatts on those offshore wind generation facilities that are declared to be in the public interest.

The bill provides that, no earlier than July 1, 2024, the Department of Environmental Quality and its Board shall adopt regulations to reduce, for the period of 2031 to 2050, the carbon dioxide emissions from any electricity generating unit in the Commonwealth, regardless of fuel type, that serves an electricity generator with a nameplate capacity equal to or greater than 25 megawatts that supplies (i) 10 percent or more of its annual net electrical generation to the electric grid or (ii) more than 15 percent of its annual total useful energy to any entity other than the manufacturing facility to which the generating source is interconnected (covered unit). The Board may establish, implement, and manage an auction program to sell allowances to carry out the purposes of such regulations or may in its discretion utilize an existing multistate trading system. The Board may utilize its existing regulations to reduce carbon dioxide emissions from electric power generating facilities. The Board may establish rules for trading, the use of banked allowances, and other auction or market mechanisms as it may find appropriate to control allowance costs and otherwise carry out the purpose of this subsection.

The bill establishes the Percentage of Income Payment Program and Fund (PIPP), which objectives are to (i) reduce the energy burden of eligible participants by limiting electric bill payments directly to no more than six percent of the eligible participant's annual household income if the household's heating source is anything other than electricity, and to no more than ten percent of an eligible participant's annual household income on electricity costs if the household's heating source is electricity, and (ii) reduce the amount of electricity used by the eligible participant's household through participation in weatherization or energy efficiency programs and energy conservation education programs. The Fund shall be supported by a non-bypassable universal service fee allocated to retail electric customers of a Phase I and Phase II Utility on the basis of the amount of kilowatt-hours used.

The Commission shall issue its final order in PIPP proceeding established pursuant to the provisions of this act by December 31, 2020, provided that the non-bypassable universal service fee shall not be collected from customers of a Phase I or a Phase II Utility, as those terms are defined in subdivision A 1 of § 56-585.1, Code of Virginia, as amended by this act, until such time as the PIPP is established. The Department of Housing and Community

Development and the Department of Social Services shall convene a stakeholder working group and develop recommendations regarding the implementation of PIPP. Such recommendations shall allow for a utility to reimburse the administrative costs of the PIPP, not to exceed \$3.0 million, and shall be submitted to the Chairs of the House Committee on Labor and Commerce and the Senate Committee on Commerce and Labor by December 1, 2020.

The bill also provides exemptions to the rate recovery costs pursuant to subdivision A 6 of § 56-585.1, Code of Virginia. The non-bypassable charge related to these provisions shall not apply to (i) PIPP eligible utility customers, (ii) advanced clean energy buyers, and (iii) qualifying large general service customers. The Commission may promulgate such rules, regulations, or other directives necessary to administer the eligibility for these exemptions.

For the time period 2026 through 2028, and for every successive three-year period thereafter, the Commission shall establish new energy efficiency savings targets. 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 Resources and the Secretary of Commerce and Trade on such feasibility by October 1, 2022, and each year thereafter.

Beginning September 1, 2022, and every three years thereafter, the Department of Mines, Minerals and Energy, in consultation with the Council on Environmental Justice and appropriate stakeholders, shall determine whether implementation of this act imposes a disproportionate burden on historically economically disadvantaged communities, as defined in § 56-576, Code of Virginia, as amended by this act, and shall report by January 1, 2023, and every three years thereafter, to the Chairs of the House Committee on Labor and Commerce and the Senate Committee on Commerce and Labor and to the Council on Environmental Justice.

The bill requires that the Secretary of Natural Resources and the Secretary of Commerce and Trade, in consultation with the State Corporation Commission and the Council on Environmental Justice and appropriate stakeholders, shall report to the General Assembly by January 1, 2022, any recommendations on how to achieve 100 percent carbon-free electric energy generation by 2045 at least cost for ratepayers.

Lastly, if by January 1, 2028, the Secretary of Natural Resources and the Secretary of Commerce and Trade determine that the greenhouse gas reduction targets are not met pursuant to § 10-1308, Code of Virginia, the Secretaries shall make a recommendation to the Chairs of the House Committee on Labor and Commerce and the Senate Committee on Commerce and Labor on the necessity and advisability of a moratorium on the issuance of permits for new fossil fuel-fired generating facilities by January 1, 2030.

6. Budget Amendment Necessary: See item 8.

7. Fiscal Impact Estimates: Final.

7a. Expenditure Impact: State Corporation Commission (SCC) – Item 484 of HB30/SB30

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2021	\$76,000	1	NGF
2022	\$152,000	2	NGF
2023	\$156,500	2	NGF
2024	\$161,200	2	NGF
2025	\$166,000	2	NGF
2026	\$171,000	2	NGF

8. Fiscal Implications: The overall statewide fiscal impacts of this bill are indeterminate.

This bill directs the Department of Environmental Quality (DEQ) to adopt regulations to reduce, for the period of 2031 to 2050, the carbon dioxide emissions from any electricity generating unit in the Commonwealth. The provisions state that the Board may establish, implement, and manage an auction program to sell allowances to carry out the purposes of such regulations or may in its discretion utilize an existing multistate trading system. These regulations shall be adopted no later than July 1, 2024. HB30/SB30, as introduced, includes \$31 million in general fund support over the biennium to restore and enhance DEQ’s capacity in several programs, \$2.32 million of which is to support the agency’s regulatory activities, including ten new regulatory review positions in its Air Protection program and ongoing support for contractual work related to greenhouse gas reporting. Conference budget amendments to HB30/SB30 reduce funding proposed for DEQ in the introduced budget bill by \$14 million, but it is unclear whether these reductions affect the funding DEQ would use toward the implementation of this bill. According to DEQ, the agency will require \$630,000 for consultants and two staff. Staff would develop regulatory program to achieve carbon-free energy sector and conduct specific regulatory drafting. Consultant work would be related to modeling.

Under this bill, utilities and suppliers are required to produce their electricity from 100 percent renewable sources by 2045 for Dominion Energy Virginia and by 2050 for American Electric Power. If the utilities cannot meet these targets, a specific deficiency payment will be required by the utility. The proceeds from any deficiency payments are to be deposited into an account administered by the Department of Mines, Minerals and Energy (DMME). The provisions authorize DMME to utilize four percent of any revenue to administer the account and associated program established in the bill.

The bill specifies that all costs incurred by a Phase I or Phase II Utility related to the required procurement of zero-carbon electric generating capacity and energy storage resources shall be recovered from all customers of a Phase I or Phase II Utility in the Commonwealth as a non-bypassable charge. The rate of this charge is to be set by the State Corporation Commission (SCC). The bill provides an exemption to this charge for Percentage of Income Payment Program (PIPP) eligible utility customers, advanced clean energy buyers, and qualifying large general service customers. According to SCC, the number of customers who may qualify for this exemption is unknown. It is anticipated that SCC’s customer call volume

will increase substantially. SCC estimates the need of two additional utility analysts, one added beginning in FY 2021 and a second added beginning in FY 2022 requiring an appropriation of \$76,000 in FY 2021 and \$152,500 in FY 2022. Salary and benefit increases of three percent per year have been applied to FY 2023 through FY 2026. Further, a call center through a third-party vendor may be required or additional full-time personnel may need to be hired, depending on the actual call volume that materializes.

The bill establishes the Percentage of Income Payment Program (PIPP), which caps the monthly electric utility payment of low-income participants at six percent, or, if the participant's home uses electric heat, 10 percent of the participant's household income. The bill establishes the Percentage of Income Payment Program Fund to pay electric utility providers the balance of low-income participants' accounts and to fund energy efficiency and weatherization initiatives. The non-bypassable fee established by SCC shall be deposited to the Fund. The bill requires that the Department of Housing and Community Development and the Department of Social Services shall convene a stakeholder working group and develop recommendations regarding the implementation of PIPP. Such recommendations shall allow for a utility to reimburse the administrative costs of the PIPP, not to exceed \$3.0 million, and shall be submitted to the Chairs of the House Committee on Labor and Commerce and the Senate Committee on Commerce and Labor by December 1, 2020. At this time, it is unclear which entity will be responsible for administering the Fund. An appropriation will be required to expend from the Fund. Costs associated with administration and implementation of this program are indeterminate.

9. Specific Agency or Political Subdivisions Affected: SCC; DEQ; DMME; DHCD; DSS; VEDP; Chief Workforce Advisor; Secretaries of Natural Resources and Commerce and Trade; localities.

10. Technical Amendment Necessary: No.

11. Other Comments: None.