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STATE CORPORATION COMMISSION
DIVISION OF UTILITY ACCOUNTING AND FINANCE

February 24, 2020

The Honorable Sally L. Hudson
Pocahontas Building, Room W429
900 East Main Street
Richmond, Virginia 23219

Dear Delegate Hudson:

I am writing in response to your request to the State Corporation Commission concerning House Bills 1526 and 1664 ("HB 1526" and "HB 1664"). Please see below for answers to your questions.

(1) HB1526 and HB1664 both provide that the costs associated with offshore wind (OSW) facilities up to 3,000 MW will be presumed reasonable and prudent if certain criteria are satisfied.

a. If Dominion builds a 3,000 MW OSW facility, how much money (in 2020 dollars) would Dominion recover from Virginia customers over the expected service life of the facility? We can include operations, maintenance, and financing costs in the estimate; assume a 9.2% rate of return on common equity; and assume costs are recovered through rate adjustment clauses.

Answer: Staff has quantified the impact on a typical residential customer bill for Dominion Energy's construction of 2,600 MW of offshore wind. Dominion Energy would collect approximately $15.5 billion from Virginia customers based on its preliminary estimates of capital investment, operations, maintenance, decommissioning and financing costs. We are not aware of Dominion Energy having any cost estimates to build 3,000 MW of offshore wind.

b. What would be the total equity return (i.e. profit) from that facility?

Answer: The profit retained by Dominion Energy over the life of the facility would be approximately $3.2 billion after taxes.

c. If, instead, Dominion were to purchase the output from a third-party 3,000 MW OSW facility via a power purchase agreement (PPA), what would be the total equity return (i.e., profit) over the service life of that facility?

Answer: Dominion Energy would charge customers for the contractual cost of offshore wind purchased from a third party through a PPA. Dominion Energy would not receive any profit margin on the sale of the offshore wind purchased through a PPA.

(2) HB1526 provides that by 2036, Dominion will construct, acquire, or purchase the output from 16,100 MW of solar or onshore wind facilities in Virginia. The bill also provides that 65% of those capacity additions will be utility owned.

a. Under these conditions and the assumptions in (1)a, how much money would Dominion recover from Virginia customers over the expected service life of those facilities?

Answer: Staff has quantified the impact on a typical residential customer bill for Dominion Energy's construction of approximately 10,000 MW of solar generation. Dominion Energy would collect approximately $30.1 billion from Virginia customers based on its preliminary estimates of capital investment, operations, maintenance and financing costs. Estimates of decommissioning costs for solar have not been provided to Staff at this time.

b. What would be Dominion's total equity return from those facilities?

Answer: The profit retained by Dominion Energy over the life of the facility would be approximately $8.2 billion after taxes.

c. If, instead, Dominion were to purchase 100% of that output from third-party solar facilities via PPAs, what would be the total equity return over the service life of those facilities?

Answer: Dominion Energy would charge customers for the contractual cost of solar generation purchased from a third party through a PPA. Dominion Energy would not receive any profit margin on the sale of the solar generation purchased through a PPA.

(3) HB1526 provides that by 2036, Dominion will construct or acquire at least 2,700 MW of energy storage capacity. The bill also implies that 65% of the storage facilities will be utility owned and 35% will be owned and operated by third parties.

a. Under these conditions and the assumptions in (1) a, how much money would Dominion recover from Virginia customers over the expected service life of those facilities?

Answer: Staff has quantified the impact on a typical residential customer bill for Dominion Energy's acquisition of approximately 1,700 MW of battery storage. Dominion Energy would collect approximately $5.2 billion from Virginia customers based on its preliminary cost estimates of capital investment, operations, maintenance and financing costs.

Estimates of decommissioning costs for battery storage have not been provided to Staff at this time.

b. What would be Dominion's total equity return those facilities?

Answer: The profit retained by Dominion Energy over the life of the facility would be approximately $1.1 billion after taxes.

c. If, instead, Dominion were to purchase the output from a third-party 2,700 MW storage facility, what would be the total equity return over the service life of that facility?

Answer: Dominion Energy would charge customers for the contractual cost of battery storage purchased from a third party. Dominion Energy would not receive any profit margin from the use of battery storage purchased from a third party.

Please let me know if you have any other questions.

Sincerely,

Kimberly B. Pate

Kimberly B. Pate
Director Utility Accounting and Finance