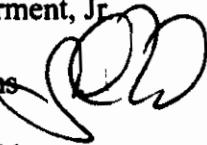


# SENATE OF VIRGINIA



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COMMERCE AND LABOR  
FINANCE  
TRANSPORTATION

**To:** Thomas K. Norment, Jr.  
**From:** John C. Watkins   
**Date:** January 21, 2011  
**Re:** Virginia Commission on Electric Utility Regulation

I felt that it would be important for me to put in print to you what I recommended last evening with regard to further study for the Virginia Commission on Electric Utility Regulation. Hopefully my memory held all those pieces together. The recommendation was for the Commission to do further investigation into:

- a. What had been referred to as the artificial floor on rate structuring and specifically with the utilization of peer groups as a means of monitoring rate floors and caps. Are we the only state doing this and is it in the best interest of the rate payers and the investor owned utilities?
- b. With regard to unbundling and the utilization of Rate Adjustment Clauses, my concern is primarily with the transparency, particularly in the RAC that is permitted for adjustments in transmission rates. As I stated, I have long been an advocate of RTO's from the standpoint that the grid system provides more reliability and protection for consumers, but I have concerns particularly with PJM with regard to their willingness to provide the State Corporation Commission with adequate and appropriate data to justify their rates. It also remains a point of contention with independent power producers and non-utility generators as well as renewable generators that the current system limits their access to the grid. I am also concerned that, with the RTO structure we are utilizing, the investor owned utilities have reduced their reserve margins and the reliability factors to a point that system recovery may be problematic should there be a major outage in some other part of the grid.
- c. I think several people wanted the Commission to also take a serious look at the overall effect of basis point incentives and the potential effect that these incentives could have on the rate structure overall. I was extremely concerned with the EEI data that we were provided in terms of the trend on electricity rates, not only on the residential side but more emphatically on the commercial and industrial rate comparisons. As I stated last evening, if that trend continues, it will place Virginia in an extremely awkward position with regard to attracting business and industry.

Thomas K. Norment, Jr.  
January 21, 2011  
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I appreciate the time and patience that everyone maintained throughout that meeting last evening, but I feel it was instructive and also time well spent. Thank you.