

Virginia Commission on Electric Utility Regulation

Thursday, June 9, 2011, 30 minutes upon recess of the Senate
Senate Room B, General Assembly Building
Richmond, Virginia

Meeting Summary

The first meeting of the 2011 interim for the Virginia Commission on Electric Utility Regulation (Commission) was held at the General Assembly Building in Richmond. Senator Thomas K. Norment, Jr. called the meeting to order. In addition to Senator Norment, those present included Senators Watkins, Saslaw, and Lucas; and Delegates Kilgore, Tata, Hugo, Janis, Plum, and J.M. Scott.

Senator Norment recapped for the Commission that he had asked for suggestions for further study at the previous meeting on February 17. He reviewed the several letters submitted by stakeholders and the issue chart developed by staff allocating items of concern addressed by such letters into five categories: (i) setting a utility's authorized rate of return (including incentives and enhanced returns); (ii) other ratemaking process issues; (iii) renewable energy, including RPS incentive; (iv) transmission issues; and (v) other issues. Letters were sent to the Commission from Senator John Watkins; Stephen Haner, Newport News Shipbuilding; Louis Monacell and Edward Petrini, Christian & Barton LLP for the Virginia Committee for Fair Utility Rates and the Old Dominion Committee for Fair Utility Rates; Ken Hutcheson, Virginia Alternative and Renewable Energy Association; Irene Leech, Virginia Citizens Consumer Council; Kenneth T. Cuccinelli, Attorney General of Virginia; Jeff Smith, Coalition for Fair Energy Rates; and Mitch King, Old Mill Power Company.

Setting a Utility's Authorized Rate of Return (Including Incentives and Enhanced Returns). Several letter writers, including Senator Watkins, Mr. Haner, Mr. Monacell and Mr. Petrini, and Mr. Smith, addressed concerns regarding: (i) the requirement that the authorized rate of return on common equity be set at a level that is not less than average of peer utilities in southeastern states and (ii) incentives that are provided in the form of an enhanced rate of return on common equity.

Senator Watkins elaborated on his concerns with requirements that the authorized rates of return are set by the State Corporation Commission (SCC) at a level not less than those of peer utilities. He asked whether such peer utilities are eligible for incentives to increase investments in new generation, energy efficiency programs, and expansion of renewable energy and, if so, how such incentives should be handled when calculating the authorized rates of return. Senator Watkins specifically inquired on rate impact due to the construction of a nuclear generating facility.

Mr. Haner discussed the incentives provided to construct additional generation and implement energy efficiency programs, and the impact that such incentives might have on the escalation of rates. He suggested that such rewards may not be necessary to provide for the addition of

generation. The role of incentives appeared to be a topic of significant interest and further study for the Commission.

Other Ratemaking Process Issues. Letters sent to the Commission from Senator Watkins, Mr. Haner, Mr. Monacell and Mr. Petrini, Ms. Leech, Mr. Smith, and Attorney General Cuccinelli also addressed the general ratemaking process. Such concerns included: (i) the trend of rising comparative electricity rates in the industrial and commercial sectors and the effect on Virginia's ability to attract businesses, create new generation, and impact economic development; (ii) the option for utilities to recover revenue reductions related to energy efficiency programs; (iii) the provision that allows utilities to submit multiple rate increase requests each year; (iv) the SCC's authority to institute rate reductions on its own motion; (v) the SCC's authority to determine a utility's capital structure for ratemaking purposes; (vi) adjustment clauses that might be bundled and considered in rate review cases; and (vii) the possible staggering of biennial rate review proceedings.

Mr. Petrini spoke to the Commission on the asymmetry in the current regulatory standards such that a utility may request a rate increase at any time, while the SCC may not initiate a proceeding for a rate reduction. He also noted his concerns with the limited authority of the SCC to determine a utility's capital structure and the resulting incentives that a utility might follow to the detriment of the ratepayer.

Mr. Wesley Russell from the Office of the Attorney General spoke to the Office's preference for the staggering of the biennial rate review cases to allow the Attorney General, serving as Consumer Counsel, and other similarly situated parties to allocate resources more effectively.

Renewable Energy, including RPS Incentive. Several letter writers, including Mr. Haner, Mr. Monacell and Mr. Petrini, Mr. King, and Mr. Hutcheson, addressed concerns regarding renewable energy. The issues noted included: (i) the 50-basis-point increase in a utility's authorized return on common equity for participating in the voluntary RPS program; (ii) the mitigation of higher costs of electricity generation from renewable sources, including avoiding (a) the construction of transmission lines, (b) the importation of electricity, and (c) greenhouse gas regulation; (iii) the role of nonutility renewable energy generators, including ability of utilities to earn a profit on power purchased from nonutility generators (NUGs); and (iv) the role of renewable energy in meeting energy demand, including bringing new generation on line in the near future.

Mr. Hutcheson spoke to the significant economic development and job creation predicted by his organization that could be attributable to the development of a greater domestic renewable energy portfolio. The members discussed the relationship between the relative higher cost of renewable energy generation and federal environmental regulations on coal-based generation. The benefits of renewable energy sources balanced against increased costs will likely be a topic of further interest for the Commission.

Transmission Issues. Senator Watkins addressed concerns regarding: (i) PJM Interconnection's provision of data to the SCC; (ii) the access to the grid by nonutility generators; and (iii) reserve

margins and system reliability. Mr. Monacell and Mr. Petrini questioned whether the importation of power purchased through PJM is a negative.

Senator Watkins informed the Commission that he had recently viewed a presentation from PJM and Dominion on these issues and felt that such information, with the additional participation of Appalachian Power, would be beneficial for the Commission.

Other Issues. Ms. Leech sent the Commission a letter addressing her concerns of: (i) the sufficiency of a safety net for low-income consumers; (ii) ratemaking case procedures (negotiated decisions; consumer representation); and (iii) utilities' flexibility in managing expenditures and income; and that the current system provided "too many options."

Senator Norment suggested that the Commission meet several times during the interim. He hopes that the first meeting, on issues related to setting a utility's authorized rate of return, would occur in July and coincide with any General Assembly action on redistricting.

For more information on the issues addressed at this meeting, please see the materials from the February 17, 2011, meeting at <http://dls.virginia.gov/GROUPS/elecutil/MEETINGS.HTM>