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Public Comments

Virginia Commission on Energy & Environment

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VMA has represented the advanced technology industries and the suppliers to these industries since 1922. The manufacturing industry and its supply chain produce nearly $172 billion (49%) of Virginia's gross state product and manufacturers directly make up over 20+% of all state and local business taxes. Manufacturers also comprise over 80% of the state's exports and produce over 400 MW of renewable energy per year. As such, **energy costs are one of the top four deciding factors in industrial growth and profitability. Any increase in energy costs has an adverse impact on industry and, therefore, energy-specific regulatory proposals must be more deliberately weighed against their economic consequences.**

Enactment Clause 3 of Chapters 888 and 933 of the 2007 Acts of the General Assembly (HB 3068/SB 1416) (Third Enactment Clause) led the SCC to conduct the last assessment of achieving "cost-effective" conservation of electricity through regulation. The Commissioners opined in a letter to Governor Kaine on December 14, 2007 that such a conservation plan "cannot be implemented without a determination of how cost-effectiveness will be defined or measured." Then, HB 2531 of the 2009 General Assembly session addressed this issue. The General Assembly stated:

> *The Commission shall determine which test should be given greatest weight when preparing a cost-benefit analysis of a demand-side management program, taking into consideration the public interest and the potential impact on economic development in the Commonwealth.*

Considering the now established policies of these bills, culminating in the findings of the SCC Case No. PUE-2009-00023, the SCC is best equipped to determine whether a proposed demand-

side management ("DSM") or energy efficiency measure is cost effective and in the public interest.

Further, any program that does not put accurate information in the hands of consumers in order to allow them to change their energy use would be a failure. [Although, it is still unclear how most programs will be approved by the SCC under § 56-585.1. A. 5 (c) since the code now requires that "*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."]*

Regardless, the costs to consumers for energy over the next few years are important to this economic recovery. As such, it is relevant to note the direct correlation between high cost electricity and the growth in energy efficiency programs. Whether or not this is a "chicken or egg" conundrum is irrelevant. It is clear that New England and Western states that are lauded as "energy efficiency program champions" have utility rates twice Virginia's. The Vermont experience, in particular, will be a beneficial analysis.

Just and reasonable ratemaking methodology to quantify costs for each customer class is essential to energy efficiency regulation in Virginia. Energy efficiency measures could appreciably shift cost responsibilities among customer classes. This means cost based rates and rate design will depend more heavily on frequent evaluation of customer and class contributions to peak hour loading and other cost driving attributes of load. Going five or ten years between intra and inter class cost of service studies is insufficient to assure cost based rates where customer usage patterns may be shifting rapidly. The SCC should provide clear guidance on the allocation of costs among customer classes (e.g., residential program costs to the residential class, etc.). As such, **the VMA does not support shifting program costs between rate classes.** In fact, most industrial customers have individually undertaken cost-effective programs at their own expense and paying for additional efficiency gains for other sectors would be anti-competitive.

As previously stated, **energy efficiency is important to industrial and many commercial businesses that are energy-intensive**. They invest in behavior changes and technology to reduce their costs, i.e. conserve energy. Their business decisions are a benefit to the Commonwealth and they are not seeking reimbursement for their costs or a return on their programs and capital investments. They are seeking some recognition for their unique circumstances that, admittedly, are not readily handled by broad public policies without creating significant government oversight investments and an appearance of unfairness.

For example, **Virginia's industrial sector has increased its gross state product per kWh of electricity input from about $2.00 to $3.14 since 1997 alone** (Source: U.S. Energy Information Administration). This equates to a 64% increase in production per kWh of electricity input in less than a decade. It proves that, as a sector, global competition forces companies to conserve to save money and that fact will not change with any government or utility program. Forcing any company that has made these investments and conservation decisions to pay for additional government regulated energy efficiency/conservation programs (even through utilities) will be anti-competitive for Virginia and an unfair financial burden on affected businesses.

In these financial times, imposing any additional financial burdens on Virginia businesses and their employees would minimize one of the leading economic development tools for the Commonwealth – low-cost electricity. The VMA would recommend that leading economic developers in Virginia provide testimony before the Commission to detail how they use low-cost electricity rates as a recruitment and expansion incentive in the Commonwealth. For industrial and technology businesses, low-cost and reliable energy is essential to our future investments in the Commonwealth and those rates should be regularly compared against those of competing southern states (e.g., NC, SC, AL, GA, KY and TN). It is simply insufficient to use macro-statistical data about statewide overall energy consumption to make decisions that will affect all rate classes equally. A residential customer will not buy his or her house because of the energy costs, but manufacturers and other advanced technology businesses will expand or relocate businesses to states and jurisdictions where energy prices are competitive.

As this Commission's work pertains to utilities, specifically consumption and peak load reductions, it is clear that each one will pursue its own unique programs. Cost reductions from inter-utility cooperation should be pursued, but not at the expense of one utility over another. They have unique service territories with unique customer needs that should be reflected in their energy conservation and demand-response programs. The VMA is aware that utilities desire a mechanism to identify verifiable load reductions that result from specific utility sponsored programs and provide deferred accounting treatment or direct recovery of "base revenues" in the interim between rate cases. This scenario could be characterized as simply reducing "regulatory lag." It is under these circumstances that major programs such as "smart meters" should be reviewed and compared and contrasted to other less capital intensive programs such as lighting or education programs.

Although this Commission has not specifically addressed the issue of consumer education, **the VMA is a strong proponent of consumer education programs leading to energy conservation**. It is incontrovertible that the greatest long-term impact of energy efficiency goals will be achieved by changing personal behavior. Consumer education should be the #1 Goal of any public policy with a deep connection to amending the Standards of Learning, K-12, University, and Contractor Licensing curriculum and public education in general. The recycling and water conservation movement has succeeded through public education and integration into all aspects of society, further expanded by corporate participation (e.g., Lowe's Home Improvement CFL program). These efforts do not require new costs, utility costs or industry investments – greater energy conservation and efficiency could be greatly improved using existing government infrastructure and agencies. For example, the Virginia Cooperative Extension Services should be charged with meeting some EE goals for the Commonwealth as they serve a broad constituency.

This Commission may also address the issue of building codes, because **it is generally accepted that improvements in building code standards that deal with energy efficient HVAC systems, insulation, windows, design, etc. have the greatest promise for energy efficiency gains in the shortest period of time**. Virginia should pursue an aggressive goal to improve energy efficiency standards in building codes as long as they do not disproportionately favor types of products, instead they should focus strictly on measurable efficiency standards (e.g., LEED vs. Green Globes). If one would just begin in the public system, there are immediate opportunities. For example, the *Chesterfield Observer* reported on July 22, 2009 that the County's newest high school, Cosby High,

consumes 18% more energy per square foot than the average of their 10 schools ($1.41 per square foot vs. $1.20 per square foot). Considering public procurement laws, it would be interesting to know how many schools around Virginia are using the same or similar building design and creating an entire generation of public facilities that are 18% less energy efficient.

The Virginia Manufacturers Association supports the conservation of energy and the implementation of cost-effective programs that will measurably lower energy costs for all consumers - these public interests are not mutually exclusive. The Commonwealth's Executive Branch and General Assembly should also recognize that market forces and timely pricing information are essential to changing consumer behavior. Advanced technology businesses, in particular, make these decisions every day in order to reduce costs and be more globally competitive and it is unlikely that a government mandated program, even through a utility, will replace those business decisions. The General Assembly and Executive Branch should take into account the competitive position of Virginia against competing southern states, as well as the impact of all programs on the ratepayer as a first priority, while insuring that there is no cross-class subsidization in any energy conservation and demand-response program in Virginia.

In closing, the VMA recommends that this Commission and the General Assembly consider a moratorium on new mandates on energy until the SCC or an independent resource can assess the cost to each customer class for all proposed legislation prior to its adoption. This will insure that Virginia's elected leaders understand the costs for each customer class and all energy businesses prior to voting on new energy mandates that could result in increased consumer costs.