Dear Chairman Norment:

As President of Old Mill Power Company (Old Mill) and as a member of the Board of Directors of the Maryland, District of Columbia, Virginia Solar Energy Industries Association (MDV-SEIA), I thank you for the opportunity to offer the following suggestions for topics to be considered by the Commission on Electric Utility Regulation during the 2011 Interim. Old Mill is a family-owned renewable energy commodities dealer based in Albemarle County and MDV-SEIA is the local chapter of the national trade association for solar industry equipment designers, manufacturers, vendors, installers, and maintainers. MDV-SEIA has approximately 100 members, most of whom do business in Virginia. Two of the largest MDV-SEIA members located in Virginia are headquartered in Virginia Beach and Alexandria, respectively, and have approximately two dozen employees each.

The topics that Old Mill and MDV-SEIA believe the CEUR should consider during the 2011 Interim are as follows:

1. Renewable Energy Performance Incentive:

As I have written on several occasions in the past, the renewable energy Performance Incentive authorized by Va. Code §56-585.2 carries a unreasonable and disproportionate downside risk for ratepayers in return for very little upside potential. In fact, the Renewable Energy Portfolio Standard (RPS) Plans already approved by the State Corporation Commission (SCC) for Appalachian Power Company and Virginia Electric and Power Company could potentially cost Virginia ratepayers billions of dollars throughout the duration of the RPS program without causing a single renewable energy project to be built in Virginia that would not have been built absent the program. The RPS program should be improved, either by making it mandatory or by limiting the incentive to projects that are more likely to have economic development benefits for Virginia.

2. Profitability for Electricity Purchased by Utilities from Non-utility Renewable Energy Generators:

Because renewable energy sources such as the sun, the wind, falling water, solid forms of biomass, etc. tend to have relatively low “energy densities” relative to nuclear fuel and fossil fuels such as coal, oil, and natural gas, it is typically not economically feasible to transport renewable fuels long distances. As a result, renewable energy electricity generators tend to be relatively small compared to their non-renewable counterparts. Because of their relatively small size, renewable energy electricity generating projects tend to be right-sized for entrepreneurial development, although they are often too small for utilities to consider them worthy of development by the utility.

On the other hand, should an entrepreneur choose to develop a renewable energy generating project in Virginia, he or she will discover that Virginia’s utilities are currently prohibited by the Code from making a profit on electricity purchased from such Non-Utility Generators (NUGs). Furthermore, the national and international bond-rating agencies interpret a long-term contract between a utility and a NUG as an "imputed debt" for the utility. Because, under the current Code, electricity purchases by utilities from NUGs cannot be profitable for a utility, and also because the bond-rating agencies treat a long-term contract between a utility and a NUG as an "imputed debt", Virginia's utilities are strongly biased against purchasing electricity from NUGs, creating a significant barrier to the development of renewable energy generating projects in Virginia. It would be an excellent use of the Commission's time during the Interim to consider what the legislature can do that's in the public interest to "level the playing field" for non-utility renewable energy project developers.

3. Explicitly Require that Rate Stability be a Consideration in a Utility's Integrated Resource Plan:

A bill that failed during the current General Assembly Session, SB 794 (Senator McEachin, Electric utilities, integrated resource plans), would, among other things, have required the SCC to explicitly consider "rate stability" when evaluating a utility's integrated resource plan. Renewable energy fuel prices are typically much less volatile than fossil fuel prices which one might think would give the SCC and utility ratepayers a reason to prefer renewable energy electricity generating projects over non-renewable electricity generating projects. But with no explicit requirement for the SCC to consider rate stability, or the benefits of additional fuel diversification, this aspect of renewable energy seems to get less attention than it deserves in the Integrated Resource Planning process. It would be an excellent use of the Commission's time during the Interim to consider what should be done to ensure that rate stability gets the attention it deserves in the SCC's IRP process.

Thank you for the opportunity to make these inputs.

Mitch King

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