Commission on Electric Utility Restructuring and Coal and Energy Commission
September 8, 2004, Richmond

The Commission on Electric Utility Restructuring and the Virginia Coal and Energy Commission met jointly to be briefed in issues of interest to both groups, including the provisions of 2004 legislation creating an incentive for the construction of a coal-powered generation facility in Southwest Virginia, Virginia's future energy needs, and alternative and renewable energy sources.

Incentive for coal-fired power facility

Senate Bill 651 of the 2004 Session was amended in the Senate Commerce and Labor Committee to include an incentive for the construction of a coal-fired generation facility in coalfield region of Virginia, which consists of Lee, Wise, Scott, Buchanan, Russell, Tazewell and Dickenson Counties and the City of Norton. The provision authorizes an investor-owned distributor that has been designated a default service provider and that constructs a coal-fired generation facility that utilizes Virginia coal in the coal field region in order to meet its native load and default service obligations to recover the costs of the facility, plus a fair rate of return on its investment, through its default service rates. The construction of such a facility is declared to be in the public interest. Default service is available under the Restructuring Act to customers who do not buy power from a competitive supplier.

Delegate J. Paul Councill, Jr., provided a perspective from Southside Virginia to this measure. He testified that LS Power of St. Louis is planning to build a coal-burning plant in Sussex County, and suggested that an incentive such as is provided for plants in Southwest Virginia would be appropriate for plants in economically distressed Southside Virginia. An incentive like that enacted for Southwest Virginia would help the Sussex County plant become a reality.

Eric Crawford of LS Power, confirmed that his company has selected a site for an $800 million, 800-megawatt coal-fired plant near Waverly. The plant could be completed and operating by 2010. LS Power has not yet arranged financing for the plant, and will not do so until wholesale customers for the power have been arranged. The incentive in Senate Bill 651 would improve opportunities by providing the ability to recovery the coal plant's capital costs in future default service rates. A parallel provision making the incentive applicable to Southside as well as Southwest Virginia would advocated as enhancing participation by independent power producers as competition moves forward.

Ralph L. "Bill" Axselle of the Virginia Energy Providers Association provided a perspective of independent electricity generators to the coal plant incentive. The measure offers tremendous benefits for Southwest Virginia while providing a source of in-state power for default service. He observed that several firms are examining the provision, and cautioned that some may say that greater specificity is needed. He praised the provision requiring the SCC to consider any petition filed in accordance with its competitive bidding rules.

Mark McGettrick, president and CEO of Dominion Generation, announced that his firm is serious about building a new coal-burning power plant in Southwest Virginia. Dominion Generation is one of at least two companies that are interested in developing a coal-fired a plant in the region, and is looking at possible sites. It is possible that a new plant could be on line by 2011.

Though Dominion will be able to buy electricity from sources outside Virginia, additional generation will be needed in Virginia in the next few years. Siting a coal-fired plant in the Coalfield Region will involve challenges, including finding adequate water supplies. However, the economic benefits of such a plant would include 90 new jobs and annual purchases of 1.5 million tons of Virginia coal.

Senator Watkins questioned whether the enactment of this provision, which allows a distributor to recover its capital costs plus a reasonable return on its investment through its rates, is a move toward reinstituting cost-of-service-based regulation of default pricing. It was suggested that offering these incentives to others might make it more difficult to establish a competitive market. In response, William G. Thomas, representing Dominion, noted that the Act has given the SCC the power to order a distribution company to build or purchase capacity, and that the enactment of this provision implements that concept.

R. Daniel Carson, vice president of Appalachian Power Company (formerly AEP-Virginia), noted that his firm announced in the previous week that it is committed to build an integrated gasification combined cycle (IGCC) power plant with a capacity of up to 1,000 MW by 2010. A siting study for the efficient and clean-burning IGCC facility or facilities is beginning, and the company will be examining such factors as permitting processes and the ability to recover its investment over time. The company will look at sites in Virginia as well as several other states served by AEP.

With respect to the incentive in SB 651, Mr. Carson noted that its cost recovery implications would be critical. He cautioned that recovery might be so uncertain that it could place Virginia at a disadvantage vis-à-vis other states. His firm may recommend provisions to strengthen the measure and allow a plant to be built in areas of Southwest Virginia that are not included in the 7-county coalfields region. With respect to the provision's requirement that the power be used to meet the distribution company's native load and default service obligations, he noted that AEP cannot dedicate its output to Virginia because AEP is part of a multistate system. He applauded the effort to encourage coal-fired plant construction.

Meeting Virginia's future energy needs

Dr. Michael Karmis of the Virginia Center for Coal and Energy Research (VCCER) at Virginia Tech walked the members through its database on Virginia Energy Patterns and trends, a reference source funded in part by the Department of Mines, Minerals and Energy and the federal Department of Energy. The primary source of fuel for electricity generation in Virginia continues to be coal, which accounts for 48 percent of the total. Dr. Karmis suggested that entry of Virginia's utilities into regional transmission entities would play a significant role by providing diversity and reserve sharing around the region.

The VCCER is active in efforts to implement the reductions in carbon dioxide called for in the global climate change initiative through carbon sequestration. Capturing and storing carbon through these techniques may help coal remain a major component in meeting Virginia's energy needs. Dr. Karmis suggested that a new coal-fired facility could serve as a demonstration site for carbon dioxide control methods. He observed that Georgia and Oklahoma have enacted legislation to encourage carbon sequestration efforts.

Michael J. Quillen, president and CEO of Alpha Natural Resources and treasurer of the Virginia Coalfields Economic Development Authority (CEDA), briefed the Commissions on the status of Virginia's coalfields region. Virginia's coalfields have benefited in recent years from rebounding coal prices, and one problem currently facing the industry is an aging workforce, as the average age of a miner is now 50 years. While employment in coal mining has declined from 12,707 in 1989 to 5,288 in 2003, the average weekly wage has increased from $647 in 1990 to $930 in 2003. The region has also benefited from increases in natural gas production, with the number of wells jumping from 886 in 1991 to over 3,000 in 2001.

CEDA's activities have fostered economic development in the coalfields region. Its new moniker for the area, "Virginia's Energy Region," emphasizes its strength in coal and natural gas resources. However, the CEDA has funded 144 projects with over $50 million, and has targeted automotive and wood products industries for growth. Its recruitment efforts are credited with establishing over 9,000 jobs.

Tom Lamm of the SCC's Energy Regulation Division, presented an update of last year's report on the adequacy of Virginia's energy infrastructure. The report focused on the dedication of facilities for the provision of electric bulk power supplies in the Commonwealth and on new generation facilities planned for Virginia since the utility restructuring process began in 1996. Information on utilities' expected growth, reserve margins, and plans to provide the power to satisfy the reserve margin requirements is based on data reported by the utilities. Mr. Lamm observed that the Restructuring Act allows future resource requirements to be met by the market purchases or by unidentified future additions of capacity. Virginia's largest electric utility, Dominion Power, anticipates a 1.8 percent annual peak load growth from 2004 to 2013. In addition, its reserve margin requirement, which had been 16 percent, will be 15 percent if its application to join PJM Interconnection regional transmission organization is approved. However, because non-coincident peak times of all members of PJM allow lower peaks for individual members, dominion's reserve margin target will be 12.5 percent. By 2013, 14.2 percent, or 3,040 MW, of Dominion's 21,432 MW net summer capability will be met by market purchases or undesignated future additions of capacity.

If market purchases and undesignated future additions of capacity are excluded, the utility's reserve margin in 2013 would be negative 3.5 percent.

With respect to AEP, Virginia comprises 15 percent of the peak load in the six states that comprise its East Zone. It also anticipates a 1.8 percent annual peak load growth from 2004 to 2013. Its generation capacity planning assumptions include a reserve margin requirement of between 12 and 12.5 percent, and that new capacity requirements will be met with market purchases and undesignated new capacity. By 2013, 1,937 MW, or 7.4 percent, of the East Zone's 26,229 MW net summer capability will be met by market purchases or undesignated future additions of capacity. If market purchases and undesignated future additions of capacity are excluded, the utility's reserve margin in 2013 would be 4.0 percent. The undesignated future additions of capacity do not include any coal facilities that may be developed as discussed in the earlier presentations by Mr. McGettrick and Mr. Carson.

With respect to new generation activity, Mr. Lamm reported that since 1996 8 projects have been approved and constructed; 2 projects have been approved and are under construction; 6 projects have been approved but construction has not started; applications for 7 projects have been with drawn; 4 projects have been announced though applications have not been filed; and 5 projects have been announced but have since been terminated or indefinitely postponed. All but one of the announced generation projects are fueled by natural gas; the other project is coal-fired.

Renewable and Alternative Energy Providers

Several presentations focused on the role that providers of alternative and renewable energy could be expected to play in meeting Virginia's future electricity needs. Stephen A. Walz of the Department of Mines, Minerals and Energy outlined the existing state and local incentives, both financial and otherwise, provided under Virginia law for providers of energy from renewable sources. In addition to outlining the programs. Mr. Walz provided data, where available, regarding the extent to which these incentives are being utilized. Information regarding incentives for renewable energy offered by other states was also made available.

Three members of the Virginia Wind Energy Collaborative provided perspectives on the opportunities afforded by the use of wind turbines in Virginia to generate electricity. Jonathan Miles, Associate Professor in the Department of Integrated Science and Technology at James Madison University discussed wind power activities and opportunities in Virginia. He observed that the best markets for wind energy are in the de-regulated states north of Virginia. While county-level policies to facilitate wind projects are not in place throughout the state, he praised the Rockingham County Planning Commission's recent decision to recommend a small-scale wind-project specific amendment to the County's zoning ordinance.

George Hagerman of Virginia Tech's Alexandria Research Institute advised the members about coalfield wind energy development opportunities. He is exploring the possibility of locating wind turbines on ridge top strip mining sites. Potential advantages to wind power developers include lower costs due to existing access roads and power distribution facilities, and advantages to owners of exhausted coal mines include lower reclamation costs and longer periods for accomplishing reclamation, which in turn provides opportunities to use phytoremediation techniques.

Alden Hathaway of the Environmental Resources Trust advocated the purchase by local governments of renewable energy certificates as a cost-effective means of meeting NOx reduction requirements. Renewable energy certificates may be purchased to attest that electricity generated from wind, solar and other renewable sources has been added to the electrical grid, thereby displacing power generated from fossil fuel plants and effectively reducing emissions of ozone-producing pollutants.

Scott Keely, director of business development at Enerdyne Power Products, advocated landfill gas as a viable energy alternative for Virginia. Currently the eight landfill gas projects, which involve collecting methane produced by decomposing waste, in the Commonwealth generate the equivalent of 60 MW, and the potential exists to create over 200 MW.

Michel A. King, president of Old Mill Power Company, briefed the members of the Commissions on the advantages of renewable energy. In addition to its environmental benefits, the use of renewable energy was lauded for its ability to decrease Virginia's reliance on foreign primary energy sources and protecting consumers from fuel price increases. He acknowledged that some forms of renewable energy, including solar, wind, and hydro, are intermittent, diurnal, or cyclical. In addition, many forms of renewable energy are not rapidly dispatchable, though this drawback applies equally to traditional baseload power plants.

B. E. (Ed) Brammer, president of Multitrade Group, Inc. of Martinsville, advocated expanding the role of renewable energy in Virginia's electric power generation mix. Multitrade operates a 79.5 MW wood-fueled power generation facility in Pittsylvania County. Advantages of burning wood products to generate electricity include lower air emissions than many other fuels and the creation of a market for low end forest products and forest industry byproducts. Brammer noted that wood products from Virginia are currently being exported to Italy for use as fuel in power plants.

Future Activities

At the close of the meeting, the Restructuring Commission announced that the Consumer Advisory Board would be reactivated, with Delegate Plum continuing to serve as liaison between the Board and the Restructuring Commission. It was also announced that Augie Wallmeyer, August Wallmeyer Communications, Ltd., has agreed to act as a facilitator to assist in bringing forth a maximum of two legislative initiatives for consideration. Interested persons may contact Mr. Wallmeyer at 804-788-4931. The Restructuring Commission's next meeting will be held after the November elections.