2013 VEPGA Annual Meeting: Legislative and Regulatory Update

Newspaper article on March 2013 biennial review filing	The rest of the story
The company's **base rates** have not increased since 1992.	• it's easy to avoid base rate increases when you recover all your cost increases via rate riders. Dominion's fuel rider has increased multiple times since 1992. And under the 2007 re-regulation act, Dominion helped shape legislation that created **an alphabet soup of generation riders (R, S, W, B, BW), plus a transmission rider (T)** that tend to increase overall rates. • the real question is why Dominion's base rates have not **decreased.** That also can be explained by the 2007 re-regulation act and its progeny
The total monthly bill . . . is only 2 cents more than it was in **July 2008.**	In July 2008, VEPGA experienced its highest fuel factor ever: 4.265 cent/kWh. Compare that to the fuel factor of 2.670 to go into effect on 7/1/2013. Basically, Dominion's overall generation cost increases have been masked by the happy fact that low natural gas prices occurring after 2008 are lowering Dominion's fuel costs.
The total monthly bill is . . . 21 percent below the **East Coast average**	The "East Coast" includes New England states, which have some of the highest electricity rates in the whole country. Dominion's peer group, as established in the 2007 re-regulation act that Dominion helped shape, is "southeastern" states, not "East Coast" states.
The power company is asking the corporation commission to increase its authorized return on equity to 11.5 percent, from the current rate of return of 10.9 percent.	This is nothing to boast about, either. Under HB 2261, the AG/Dominion/APCo bill that passed in the 2013 General Assembly, the utilities relinquished their 50 basis point RPS bonus, meaning that the 10.9% authorized rate of return should now be 10.4%. But instead of making this downward correction, Dominion asks for an increased rate of return AND seeks to changes its debt/equity ratio from a 49/51 split to a 44/56 split so that its 11.5% would apply to even more of its assets.

Newspaper article on HB 2261 in 2013 General Assembly session	The rest of the story
Customers of Virginia's two big electric power companies **likely will save hundreds of millions of dollars** over the next 12 years under an agreement worked out between the state Attorney General and the utilities. **In return** for agreeing to drop the renewable energy and new construction bonuses, Dominion Virginia Power and APCo **would get some changes to the law they seek:** • expanding the financial performance limits defining when the companies "overearn" or "underearn" compared with their state-authorized rate of return • allowing utilities to recover the costs of catastrophic natural events and early power plant closings . . . during the biennial review period [in which] they occur	Remember Riders R, S, W, B, BW and T? The legislation grandfathers them. And bonuses for the truly big ticket items-- a new nuclear plant and offshore wind development—are still entitled to incentive bonuses (100, not 200, basis points). And what Dominion got in return may well ensure that base rates remain unchanged, i.e. they are not decreased, because • Dominion now has to overearn by 70 basis points (10.4 + .7 =11.1%) rather than 50 basis points (10.4 + .5 =10.9%) before overearnings are shared with ratepayers • Dominion gets to recover costs of two significant storms plus the retirement of two coal plants within an abbreviated period of time, meaning it's far less likely overearnings can be found • Dominion avoids a base rate decrease for 4 years because overearnings must be found in 2 back-to-back biennial reviews before the SCC can authorize a base rate decrease. Without HB 2261, Dominion would have its first base rate decrease since 1998. • limits imposed on SCC discretion include no longer being able to determine the period to which the authorized ROE applies regarding overearning calculations

2013 VEPGA Annual Meeting: Legislative and Regulatory Update, cont.

HB 2334 Delegate Yancey ***Pilot PPA permits certain PPAs in Dominion's territory and prohibits others***1

- pilot limited to Dominion territory for facilities between 50kW and 1 MW that use solar or wind; but 501c tax exempt can have facilities smaller than 50kW
- 50MW cap counts against existing net metering cap
- PPAs that fall outside the pilot parameters are prohibited, unless they involve CSPs serving 100% of customer load
- **Pilot does not impact rights under Dominion contract with local government group**
- Dominion affiliate can participate in the pilot
- Excludes renewable energy sellers from regulation as a public utility
- Renewable energy seller owns or operates a renewable facility under 1MW on a customer's premises and sell the electricity to the customer generator under a PPA
- PPA is permissible even if less than 100% of customer's load is supplied
- PPA is permissible even if incumbent utility has a 100% renewable energy tariff
- sellers under pilot program
    - not considered electric utilities or CSPs
    - not required to meet 100% of the load
- Allows individual retail customers to purchase power from a seller in the pilot program if the above conditions are satisfied as well as :
    - customer must be an eligible customer generator under Virginia's net metering program.
    - customer must be financing the acquisition, installation, maintenance, or operation of the generating facility through a PPA between the customer and the seller.

2013 VEPGA Annual Meeting: Contract Update for July 1, 2014 Contract

What's the problem?	What's VEPGA's proposed solution?
Base rate increase: Dominion may seek a **base rate increase.** It claims it could have asked for a $128 million increase for jurisdictional customers. Its cost of service showed it was earning a lower return on Virginia non-jurisdictional customers. VEPGA represents over half of the Virginia non-jurisdictional load, and the other components—the Commonwealth and the federal government—are likely paying at levels that approximate jurisdictional rates.	Seek adjustments to the cost of service, many of which will likely be addressed in the 2013 biennial review case, such as • a more reasonable debt/equity ratio • a more reasonable rate of return that excludes any bonuses • more reasonable adjustments to the rate year: now storm expenses are averaged over 3 years, with two of those years containing unusually severe storms. • a more reasonable cost allocator that reflects the true costs imposed by VEPGA's load characteristics
On site PPAs: the PPA pilot in HB 2334 contains numerous restrictions	Seek to revise the "all requirements" provisions in the Master Agreement to permit on-site PPAs as long as they are limited to serving the customer's load.
Construction: time frames are too long; costs are excessive	Seek to revise the agreement by specifying time limits for cost estimates and project completion dates; allowing customers to do more of the work; excluding betterment; having Dominion bear the costs of its designer's omissions
Street lights: delays in getting repairs; too costly LED rates	Seek to have customer make repairs & charge Dominion; revise LED schedule.
Undergrounding: localities currently pay more for undergrouding	Seek to have undergrounding be on more of an equal footing with overhead construction (4:1), with some similarities to what Dominion proposed in its 2013 biennial review.

Dominion Virginia Power: No increase in base rates for next two years

BY PETER BACQUÉ Richmond Times-Dispatch | Posted: Friday, March 29, 2013 12:00 am

Dominion Virginia Power customers got welcome news from the state's largest electric utility Thursday: The company will not request an increase in its base rates for electric service for the next two years.

Dominion Virginia Power's decision means that the base rates — which make up about 60 percent of a residential customer's bill — will remain unchanged for 2014-15.

"We are not going to request a rate increase in this case," said Thomas P. Wohlfarth, the company's senior vice president for regulatory affairs.

The Richmond-based utility company filed its biennial rate review application with the State Corporation Commission Thursday. The company's base rates have not increased since 1992.

"It's good news for the business community," said Barry DuVal, president and CEO of the Virginia Chamber of Commerce, the state's largest business advocacy group with 14,000 members. "It leads to economic competitiveness for our businesses.

"The business community in Virginia enjoys these long periods of stable electric rates," DuVal said, "and we promote Virginia as a stable utility-rate environment to do business in." The total monthly bill for a typical Dominion Virginia Power residential customer using 1,000 kilowatt-hours is now $107.22.

That bill is only 2 cents more than it was in July 2008, the company said, and at the same time 15 percent below the national average and 21 percent below the East Coast average. "Holding down our base rates over this 20-year plus period reflects our continuing focus on operating as efficiently as possible," Paul D. Koonce, the company's president and CEO, said in a statement.

Dominion Virginia Power is the state's largest electric company, serving 2.3 million customers and 80 percent of the state's population.

Though not seeking an increase in the rates charged customers, the power company is asking the corporation commission to increase its authorized return on equity to 11.5 percent, from the current rate of return of 10.9 percent.

"Our earned rate of return (for the past two years) was only 10.11 percent," Koonce said in testimony filed with the SCC.

"We are pleased that Dominion is not seeking a rate increase," state Attorney General Ken Cuccinelli's office said in a statement. However, Cuccinelli said his office will participate in the case to check the company's earnings and authorized return — or profit margin — for the next two years.

In the case, the SCC will review Dominion Virginia Power's performance for 2011 and 2012 to see if the utility under- or over-earned in relation to its 10.9 percent authorized rate of return. The utility regulatory panel also will determine the company's allowable return on equity going forward. While the SCC authorizes utilities' rates of return, it does not guarantee power companies will make that much money.

Among the efficiencies the company has made, Wohlfarth said, has been trimming its distribution system workforce by about 5 percent from 4,237 employees in 2008 to 4,005 employees in 2012.

The company also has made engineering improvements to its power plants to increase their power output without additional fuel costs. During the 2011-2012 review period, Dominion Virginia Power "uprates" produced 102 megawatts of additional generating capacity from existing power stations.

The company and its customers have benefited from low natural gas prices, which fuel its combustion turbine power plants. The amount of electricity Dominion Virginia Power has generated from its gas-fired units has almost tripled in the last four years, displacing higher-cost sources.

Dominion Virginia Power has been able to keep its rates down even as the company spent $8 billion during 2007-12 to build power plants and power lines to meet increasing demand, Wohlfarth said.

While base rates comprise the majority of a customer's bill, ratepayers also pay for fuel — without a markup — and for infrastructure improvements. Current company projections place the impact of all these other rate adjustments this year at about 3 percent.

Virginia law requires that electric utilities be given an opportunity to recover "reasonable and prudent" operating expenses, plus a fair rate of return on the value of their capital investment in things such as generating stations and the distribution grid. The resulting rates, state law says, must be "just and reasonable."

The SCC has until the end of November to make a decision in the rate case.

As a result of the company's 2011 rate case, the SCC ordered Dominion Virginia Power to refund $78.3 million to customers through credits on their power bills.

The company's 5,000-page filing "will get close scrutiny from all stakeholders, I'm sure," said attorney Cale Jaffe with the Southern Environmental Law Center in Charlottesville ."We'll have to dig through it." The center frequently participates in SCC utility cases.

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Deal may repeal renewable energy program bonuses

BY PETER BACQUÉ Richmond Times-Dispatch | Posted: Wednesday, January 16, 2013 12:00 am

Customers of Virginia's two big electric power companies likely will save hundreds of millions of dollars over the next 12 years under an agreement worked out between the state Attorney General's Office and the utilities.

The proposal would repeal the state's bonuses for renewable energy programs and building fossil-fuel power plants. Attorney General Ken Cuccinelli said in a report in November that the bonuses have not produced intended environmental gains or encouraged power plant construction.

However, the proposed agreement does not cancel the state's goals for renewable energy use, Cuccinelli's office said. Under the deal, announced Tuesday but which has not been finalized, utilities still will be able to recover costs to meet the renewable energy goals.

Annually through 2025, the proposal would reduce Dominion Virginia Power's revenue requirements by $38.5 million and Appalachian Power's by $7.75 million, Cuccinelli's office said.

The money doesn't translate directly into a corresponding decrease in customer rates, but the reduction in allowed earnings "will provide significant benefits to customers when rates are set and when the amount of refunds are determined," Cuccinelli's office said.

The negotiations also led to the proposed repeal of bonuses for building power plants that use fossil fuels, the Attorney General's Office said.

"This proposal is another step forward for Dominion Virginia Power's customers," the company said in a statement. "It allows the company to continue investing billions of dollars in projects that enhance reliability, meet the growing energy demand and create thousands of jobs.

"All of this is being done while Dominion's electric rates are virtually the same as in 2008," the company said. "Dominion also remains committed to meet the current voluntary renewable portfolio standard goals."

Environmentalists were not happy with the proposal.

"It repeals the incentives" for renewable energy development, said Glen Besa, director of the Sierra Club's Virginia Chapter. While concurring that the agreement "does save the consumers in Virginia a lot of money," Besa said it leaves the state's renewable energy goals without incentives for power companies to accomplish them.

Virginia has set a goal of producing 15 percent of the electricity used in the state from renewable generating sources by 2025. Richmond-based Dominion Virginia Power will file for its biennial rate review with the State Corporation Commission in March. Under the negotiated proposal, Apco would go before the regulatory commission in 2014 for its rate review.

In the report in November, Cuccinelli said customers of Virginia's two largest electric utilities would pay more than $1 billion more than necessary for renewable energy programs and new power plants because of the incentives, called "adders," written into state utility regulation law.

A General Assembly commission last month told the attorney general and the two power companies to agree on changing the bonuses or face having the legislature do it for them.

The legislature's Commission on Electric Utility Regulation will take up the deal Thursday. The agreement must be approved by the General Assembly.

Under the proposed agreement, the elimination of the adders theoretically could affect Dominion Virginia Power customer payments this year, though the change is more likely to have an impact starting in 2015.

A typical Dominion Virginia Power residential customer today pays a monthly electricity bill of $107.22, the company said.

In return for agreeing to drop the renewable energy and new construction bonuses, Dominion Virginia Power and Apco would get some changes to the law that they seek:

• expanding the financial performance limits defining when the companies "overearn" or "underearn" compared with their state-authorized rate of return; and

• allowing utilities to recover the costs of catastrophic natural events and early power plant closings, because of new environmental rules or factors beyond the companies' control, during the biennial review period they occur for financial reporting purposes.

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Bill	Ratepayer Impact	Chapter	2013 General Assembly Energy Bills
HB 1695 Minchew		281	Net metering program for agricultural businesses
HB 1770 Miller SB 1287Colgan		281 406	Provisions for natural gas utilities to recover safety costs.
HB 1771 Kilgore SB 1111 McDougle		208 391	Method for calculating natural gas severance taxes by localities
HB 1790 Garett SB 1138 McWaters		57 394	Virginia Nuclear Energy Consortium Authority
HB 1799 Lewis		284	Exemption for certain small natural gas utilities from cap on investments in qualifying projects.
HB 1917 Surovell		494	Output from solar thermal energy systems may be used to satisfy RPS goals
HB 2100/ SB918		305 618	Revenues from coal & gas severance taxes by localities
HB 2110 Morefield		306	Apply revenues from coal & gas licenses to construction of natural gas lines
HB 2111 Morefield SB 1014 Puckett		129 47	Repeal of now obsolete provisions regarding surface mining of coal
HB 2180 Rust SB 1259 J. Edwards		308 403	Utility energy purchases must expressly convey renewable attributes to count towards RPS goals; limit to new agreements.
HB 2261 Kilgore		2	AG/DVO/APCo bills: revise adders & earnings band; constrain SCC re: costs and ROE; effective 2/14/2013
HB 2305 Ramadan		357	Community associations impose restrictions on use of solar panels
HB 2310 Rush		516	Localities' regulation of mountain top ridge construction.
HB 2334 Yancey SB 1023 Edwards		358 82	Expressly permits certain PPAs in Dominion territory and prohibits other PPAs
SB 956 Favola		721	No declining block rates for residential customers unless equitable to all; limit to IRP
SJ 314 Watkins			Commends Dominion for efforts to restore power in VA and Northeast during Hurricane Sandy.

Bill categories (# of bills passed out of total # in category): Natural Gas (2 of 2). ROE adder (1 of 6). Renewable PPA (1 of 1). RPS & Generation (2 of 6). Other Electric Rates (2 of 6). Fuels (2 of 4). Net meter; RECs (1 of 2). Sustainabilty (1 of 2). Localities, Taxes, Funds, Exemptions (4 of 10). Transmission (0 of 2).