

**Virginia Energy Governmental Purchasing Association
(VEPGA)**

County Manager's Conference Room
Henrico County Administration Building
4301 East Parham Road
February 12, 2010
10:00 a.m.

Minutes

Present were board members Paul Proto, Henrico County, Steve Sinclair, Fairfax County, Ricky Bowers, City of Chesapeake; Matt Groff, Prince William County; Wayne Lassiter, City of Richmond; Jim Morris, Virginia Beach City Schools; Rick Raike, Hampton Roads Sanitation District; Tom Reinsel, Fairfax County Schools; Dave Simmons, Gloucester County Schools and Jerry Spivey, City of Norfolk.

Also present were VEPGA counsel Louis Monacell and Cliona Robb with Christian & Barton and VEPGA consultants Glenn Watkins and Ken Strobl with Technical Associates.

I. Call to Order

Chairman Sinclair called the meeting to order at 10 a.m.

II. Approval of Minutes of Previous Meeting (11/6/09)—Attachment A

Chairman Sinclair asked if anyone had revisions to the minutes of the prior meeting. There were none. He then called for a motion to approve the minutes of the previous meeting.

A motion to approve the minutes of the November 6, 2009 meeting was made by Mr. Simmons and seconded by Mr. Morris. The motion was passed unanimously.

III. Ratification of New Members—Attachment B

Mr. Sinclair presented the attached list of new members.

A motion to ratify the new members was made by Mr. Raike and seconded by Mr. Lassiter. The motion was passed unanimously.

There was a discussion of the Metropolitan Washington Airport Authority ("MWAA") having joined as a new member. Mr. Simmons asked if the federal government were eligible to join VEPGA. Mr. Sinclair explained that the federal government contract with Virginia Power was now similar to the Commonwealth of Virginia contract. The federal government used to negotiate separate rates,

but within the past few years, its contract follows the jurisdictional rates. Mr. Sinclair noted that the federal government was participating in the ongoing Virginia Power base rate case being heard by the State Corporation Commission (SCC).

IV. Additions to Agenda.

Chairman Sinclair called for any additions to the agenda. There was a brief discussion of VEPGA having published a new brochure and distribution of this brochure directly on behalf of VEPGA or by others on behalf of their specific entities. Mr. Proto suggested following up with VML and VACO, including inviting VML and VACO to VEPGA's annual meeting. Mr. Sinclair asked board members to let him know if they wanted copies of the brochure.

Chairman Sinclair suggested that, due to time constraints, that the Budget & Finance Committee Report be presented out of order and be considered during lunch.

V. Budget & Finance Committee Report—2010-11 Proposed Budget & Assessment—Attachment C

After lunches were obtained at 12:35 p.m., Mr. Lassiter, Mr. Groff, and Mr. Sinclair presented the Budget and Finance committee report in the absence of the chair of the group, Mr. Baker. Additional action on the proposed budget is discussed in conjunction with the board's consideration of the Financial Statements below.

VI. Other Committee Reports

- ***Energy Efficiency and Conservation Committee***

Mr. Barancewicz, chair of VEPGA's Energy Efficiency and Conservation Committee ("EEC Committee"), discussed matters addressed during the committee's December 14, 2009 meeting. He noted that there is more than one yardstick and there is often not exposure to the full gambit for reducing energy costs. Loudon County Public Schools and also Loudoun County have been spreading the word about energy efficiency and conservation. Energy efficiency involves using improved technology to decrease energy demand in the built environment. Energy conservation means taking steps and adopting habits that decrease the amount of energy used to operate the built environment. Basically, conservation involves how the building is operated, and it's important to stress that proper operation is need to lower costs and save energy: simply have energy efficient devices is not sufficient. Sustainability encompasses both energy efficiency and energy conservation. Legislation uses these terms interchangeably.

It is also important to scrutinize the claims of those selling wares guaranteeing savings. For instance, a Loudoun County board member suggested a device that would impact the rkVa and lower the power factor penalty rate, but VEPGA does not have a rate that imposes such a penalty. The bottom line is that it is a good idea to educate VEPGA members on these issues. Mr. Barancewicz reported that the author of a chart addressing false energy claims was scheduled to speak at VEPGA's annual meeting.

Other topics addressed at the December 14, 2009 meeting of the Energy Efficiency and Conservation committee included an update on the Virginia Commission on Energy and Environment and the new REC rider being added to VEPGA's rate schedules. Mr. Reinsel asked if we knew who had signed up for RECs, and Mr. Barancewicz said he did not know but could follow up on that. Mr. Barancewicz noted that RECs were counted towards compliance with the Go Green initiative, but Loudoun County would have needed a \$250,000 purchase to achieve first place and decided to settle for second place instead (the prize for first place was \$5,000).

Mr. Reinsel asked why not do solar power at the schools? On a cost equivalent basis, RECs produced 21 times more carbon reduction than a direct investment in solar power. RECs offer a low cost way to get carbon reduction.

Mr. Groff noted that revenue from demand response could be used for energy purchases such as RECs. Mr. Groff asked if Fairfax County was going to utilize RECs for SIP compliance purposes regarding the Clean Air Act. Mr. Sinclair indicated that this specialized kind of REC would likely not be needed until the August/Sept. 2011 timeframe, and this timeframe should be communicated to Virginia Power regarding the timing for preparing a second REC tariff for SIP compliance RECs.

Mr. Barancewicz reported that Joe Lerch from VML had attended the EEC committee meeting and described DMME grants for \$25,000 to buy down the cost of bio diesel fuel.

Mr. Barancewicz also described the Green Governments and Green Schools Challenge, which necessitated having a firm grip on a locality's energy use. He said that carbon emissions inventories were emerging as a measure of energy use, and this could be a topic covered at VEPGA's annual meeting. Mr. Sinclair agreed that spending 30 minutes on this topic at the annual meeting was a good idea. Mr. Barancewicz explained that EnergySTAR offered a portfolio management system that allowed for master account sharing, which would allow inter-governmental comparisons. He said that Mr. Morrill from Arlington County had expressed an interest in this, and Loudoun County would also like to benchmark its usage and compare it with other localities.

Mr. Barancewicz said that the last topic covered in the EEC committee meeting was Gloucester County being the first to use factory built propane-fuel school busses, and he congratulated them on paving the way. Mr. Simmons noted that the fuel was about equal to diesel in terms of miles per gallon and helped reduce the carbon footprint. The operational experience had been excellent so far with very minor if any mechanical issues.

Mr. Barancewicz said that the next meeting of the EEC meeting was scheduled for March 5th at 9:30am at the Henrico County Administration Building, and the primary topic would be finalizing topics for the VEPGA Annual Meeting. Such topics would likely include (1) the EnergySTAR portfolio management program,(2) a presentation by the author of the power quality article addressing energy savings claims that were false, and (3) a presentation by the World Research Institute on preparing a carbon emissions inventory.

There was a discussion of other topics for the VEPGA Annual Meeting, such as an update on VEPGA contract negotiations or a presentation on the VEPGA pamphlet and white paper or the availability of RECs. Possible venues were discussed, such as Dominion Virginia Power's Innsbrook offices or the Henrico Training Center. Mr. Craig will be asked to explore venues in addition to Virginia Power's Innsbrook offices because contract negotiations may be discussed during the annual meeting.

- **Joint Action Committee**

Mr. Bowers reported that the JAC had been working with Steve Heroux at Virginia Power on streetlight outage tracking reports, which required more detail because they were now just shown as open or closed with no details on the work being done. The JAC was also working on an LED streetlight pilot report. The next JAC meeting would be March 12th, and VEPGA members should make the JAC aware of any problems with lighting or billing or construction.

Mr. Groff said that Prince William County had done 8 to 10 LED streetlights out of block grant money. Mr. Bowers said that Chesapeake had planned to do that but it had fallen through. Newport News had regular street lights on one side of a street with LED streetlights on the other side for comparison purposes. Mr. Bowers said the pilot was still open for localities to sign up: there were 100 streetlights total, for 10 lights for 10 localities. Virginia Power would handle the installation and billing, and they could be left up after the pilot was completed. Mr. Bower would have Graham Cecil confirm the deadline for signing up for the pilot and would pass along information to Mr. Craig for distribution to VEPGA members.

VII. Legal Update

Topics in the legal update were taken out of order and were discussed in the order shown below. In addition, the presentation by Technical Associates on the fuel factor was given in the midst of the Legal Update on other SCC proceedings.

- **Report on General Assembly bills—Attachment F**

Ms. Robb described the status of General Assembly bills addressing energy topics and addressed questions related to how AEP rates compared to Virginia Power rates and how LEED requirements applied to new building requirements.

- **Report on Virginia Power rate case**

Mr. Monacell reported on developments in the ongoing Virginia Power base rate proceeding at the SCC. He said return on equity was a huge issue, with Virginia Power initially seeking 14% while the average in the United States was 10.3%. The SCC, the Navy, the Virginia Committee for Fair Utility Rates all sought a return on equity for 10.2% to 10.5%. Virginia Power's initial stipulation with the Attorney General's office and certain other parties ("Initial Stipulation") offered an 11.9% return on equity for base rates and 11.3% for riders.

In responding to a question regarding a rate decrease, Mr. Monacell noted that 2008 data showed a 17% profit on common equity, and the SCC staff testimony showed excess earnings for 2008 were approximately \$500 million. However, Virginia Power filed using 2008 as a test year and asked for \$300 million rate increase, which it adjusted downward to \$250 million rate increase when interim rates went into effect on September 1, 2009. During the hearing, Virginia Power's litigation position was a \$238 million increase, and the SCC staff sought a \$340 million rate reduction. In its Initial Stipulation, Virginia Power offered a \$240 million roll back of the interim rate increase but no base rate decrease as compared to rates in effect on August 31, 2009.

In PUE-2009-00081, Virginia Power pulled out \$600 million in AMI metering costs in response to SCC Staff and Attorney General testimony that a sufficient benefit to rate payers had not been demonstrated. That should result in a \$60 million reduction in the \$238 million rate increase that is Virginia Power's litigation position in the base rate case.

The Initial Stipulation offers a one time bill credit by 2010 of \$400 million including both base rates and rider credits: this result would be better than a modes rate reduction of \$50 million because it would take five years of rates being reduced by \$50 million to equal a \$400 million bill credit.

The initial stipulation also would result in no dynamic pricing. Jurisdictional Schedule 10 is the counterpart to VEPGA Schedule 132, but small commercial and residential cannot have dynamic pricing without a full scale roll out of AMI, which is currently on hold based on Virginia Power's actions in PUE-2009-00081 concerning the energy efficiency and conservation programs included in its proposed surcharge.

Mr. Barancewicz inquired about previous time of use schedules. There was also a discussion of Virginia Power's usage dipping due to the recession but not by that much. Industrial use is only about 10% of the overall load, and the remaining load has not dipped that much. A 2.5% growth rate is based on new customers and growth in load of existing customers. Virginia Power is the one utility facing load growth in all of PJM. Mr. Watkins noted that increased conservation has not kept pace with changes in demographics and increased customer growth. Mr. Reinsel noted that for Fairfax County Public Schools, voluntary reductions were the killer app: AMI was not needed for this.

- **Report on other SCC proceedings**

*Mr. Monacell reported on results from Virginia Power's recent jurisdictional fuel factor proceeding at the SCC, in which Virginia Power agreed to credit the jurisdictional fuel factor for monies it had received for Financial Transmission Rights (FTRs) for the time period on and **after** July 1, 2009 at later. Virginia Power also made a similar adjustment to VEPGA's fuel factor, pursuant to its current contract with VEPGA, which provides for the VEPGA fuel factor to be adjusted when the jurisdictional fuel factor is adjusted.*

*An open issue in the jurisdictional fuel factor proceeding is whether Virginia Power will be required to credit the fuel factor for FTRs received **prior** to July 1, 2009. The SCC has not yet decided that issue in the fuel factor proceeding. However, Virginia Power has conceded this issue in its Initial Stipulation in the base rate case and provided for an additional FTR credit for monies received **prior** to July 1, 2009.*

In response to an inquiry as to what the 2010-2011 VEPGA fuel factor will be, Mr. Monacell said that Virginia Power has not provided that information, but VEPGA could ask for its best estimate. Mr. Raiké said that getting an annual estimate from Virginia Power in January of each year would be helpful for budget purposes. Continued discussion of the fuel factor commenced and is recorded in these minutes under the Consultant Update.

At the conclusion of Mr. Watkins' and Mr. Strobl's discussion concerning the fuel factor, Mr. Monacell discussed SCC proceedings in 2009 to set the riders for the Southwest Virginia coal plant and Bear Garden in 2010, and also upcoming SCC proceedings in 2010 to set the amount of these riders for 2011.

An additional rider will soon be set for energy efficiency and conservation programs. This means that jurisdictional customers will have at least 3 rider cases each year in addition to the fuel factor rider, and a nuclear plant would add another rider. Based on the 2007 legislation, there could ultimately be 10 to 15 riders for jurisdictional customers each year.

The SCC is also considering the RPS plan, which could permit \$1 million spending on renewables to result in an enhanced return on equity worth perhaps \$35 million. Another pending SCC case involves the IRP proposal concerning demand forecasts and what new plants will be built to meet future needs.

Mr. Groff discussed listing all the riders separately on a customer's bill, which could make the bill two or three pages long. He noted that this was done for cable bills and provoked customer outcries. Mr. Monacell said the SCC did not require this, and no one had requested it. He said it was an excellent argument. Mr. Watkins said the North Carolina Attorney General's Office had asked for this and created some consternation, with Duke Energy claiming it would cost \$28 million to break out each rider. Mr. Monacell noted that failing to list riders separately made it easier to pull the wool over everyone's eyes. Mr. Watkins described how the Kentucky Commission requires all charges to be shown separately on the bill. Mr. Groff said he wished someone would push hard to put all the charges on the bill itself. Mr. Barancewicz said that a newsletter could be sent once a year and asked about attorneys fees for all the rate riders. Mr. Groff asked why not push to require that the riders be broken out. Mr. Watkins suggested calling the Attorney General's office.

- **Report on Virginia Power comparison for switching rate schedules—
Attachment D**

Ms. Robb discussed the rate switching analysis provided by Virginia Power. Mr. Barancewicz said a contact person was needed. Mr. Monacell asked how good the key account representatives were. Mr. Reinsel asked do we have a key account representative? Mr. Barancewicz said there was one located in Charlottesville and you have to call and ask. Could Steve Craig send individual results to the VEPGA representative of localities that showed savings from switching? Mr. Reinsel said it was difficult for small counties and towns to do their own analysis. Mr. Proto mentioned education of the membership. Mr. Monacell asked whether a survey of best practices should be done. Mr. Barancewicz discussed Loudoun County Schools efforts to purify their data base, which required two meetings in Richmond with Virginia Power and ultimately required closing all accounts and opening new ones. Issues included the service address vs. the mailing address. Also there can be three or four customer numbers for one entity.

**Status of negotiations with Virginia Power for 1/1/2011 contract
(Exec. Session)**

Mr. Groff made a motion to move into a closed meeting under Code of Virginia § 2.2-3711(A)(30) to discuss the award of a public contract involving the expenditure of public funds, including interviews of bidders or offerors, and discussion of the terms or scope of such contract, where discussion in an open session would adversely affect the bargaining position or negotiating strategy of the public body. The motion passed unanimously.

Following the conclusion of the closed meeting, Mr. Groff asked each board member present to certify that (i) only public business matters lawfully exempted from open meeting requirements under this chapter and (ii) only such public business matters as were identified in the motion by which the closed meeting was convened were heard, discussed, or considered in the meeting. Each board member responded affirmatively.

VIII. Consultant Update—Attachment G

- **Report on fuel factor**

As noted above, the presentation by Technical Associates on the fuel factor was given in the midst of the Legal Update on other SCC proceedings.

Mr. Watkins noted that when Virginia Power sets the fuel factor each year, it does a very sophisticated projection based on loads, sales, and costs. Page five of Attachment G shows current prices, with all credits removed. Page one of Attachment G shows how actual fuel cost vary in summer and winter. The monthly projection is shown in blue, and the red shows actual fuel costs.

July of 2008 was the peak for energy prices. Virginia Power's projected cost have been lower than its actual costs during the current recession, and Virginia Power has recently provided interim fuel factor reductions to reflect this. When explaining why Virginia Power's projections were so far off, Mr. Watkins stated that page 2 of Attachment G, which shows in red the actual cost per kWh, illustrates spot market prices for natural gas and for coal. Virginia Power did hedge with some long term contracts, but its actual costs generally track the spot market costs. Recently, there has been an up tick in natural gas prices, and coal is following natural gas and oil prices. Mr. Watkins did not see a great increase in energy costs in the very near future.

Page three of Attachment G shows that in the early period there was a deficit, in November of 2008 there was a surplus, and in October, November, and December there was a deficit. The graph compares actual costs to what Virginia Power

expected the costs to be. Even if Virginia Power's predictions were perfect, because the fuel factor is based on average costs, it will always undercollect in some months and overcollect in other months. There have been small deficits in the past few months.

At the conclusion of Mr. Watkins remarks, Mr. Strobl provided further analysis on Virginia Power's calculation of the fuel factor. He noted that as overall kWh was reduced and as the peak was reduced, Virginia Power's pricing was more heavily influenced by its baseload coal and nuclear units. The fuel factor projections were way off because its sales forecast was way off. Virginia Power anticipated using gas peaking units more than it actually did due to the economy and also due to the weather. Baseload nuclear units are under one cent per kWh. Also, market prices in PJM became so cheap due to overcapacity that it made more sense to purchase in the market than to run its older baseload coal units. In the next 4 or 5 years, 30 to 40 year old coal units may well be more expensive due to cap and trade or due to adding on scrubbers.

Mr. Groff asked if AEP relied on coal more, and asked if MCF and mmBtu were the same: Mr. Strobl said they were roughly equivalent. When the presentation resumed, Mr. Reinsel asked about Virginia Power being second only to California in imported energy. Mr. Strobl said that imported sales have grown over time and are about \$200 million/year, but this has occurred because it's cheaper to import energy, not because there is insufficient capacity in Virginia. Another misleading aspect of the "second largest importer" label is that both AEP and Virginia Power own facilities in West Virginia, and those are counted as imported energy.

The fuel factor presentation was interrupted for lunch and consideration of the Budget and Finance Committee Report. Mr. Raike inquired if the fuel factor for July 1st to June 30th could be set the January preceding the July 1st. Mr. Watkins indicated that VEPGA's contract negotiation team could follow up on this. Following these remarks, the Legal Update on other SCC proceedings continued, as discussed above.

IX. Financial Statements (12/31/09)—Attachment E

Mr. Lassiter presented the Financial Statements. He noted that revenue was 6% above projections due to increased membership. Refunds to localities would result in volatile assessments and consistent assessments would make budgeting more consistent. There was no increase proposed by Christian & Barton. There was some reallocation between legal and consulting, with the total remaining the same on lines 10 and 11 to better align with where the money was spent.

Adding MWAA as a member brought some relief to the assessment due to its size. There was some discussion of updating assessments based on actual consumption, but this would take a long time and the feasibility of this should be considered for next year.

Mr. Lassiter made a motion to approve the 2010-2011 budget, and Mr. Raike seconded the motion. The motion was passed unanimously.

Mr. Sinclair directed Christian & Barton to prepare an annual summary of VEPGA's accomplishments to be included in the budget assessments to be sent based on the budget as proposed in Attachment C.

The board next considered going into closed session for the final legal update, as described above.

X. Next Meeting Date(s)

The next meeting will be the annual meeting in April, with details to be worked out in the March 5, 2010 meeting of the EEC committee meeting.

XI. Adjournment

The meeting adjourned at 2:55 p.m.

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