

Commonwealth of Virginia

State Corporation Commission

**Report to the Governor of the Commonwealth of Virginia
and the Virginia General Assembly**



**Evaluation of the 2009 Conservation, Efficiency and Renewable
Resource Self-Assessment Report of the Virginia Electric Cooperatives**

**Pursuant to Chapter 824 of the
2009 Acts of the Virginia General Assembly**

December 1, 2009

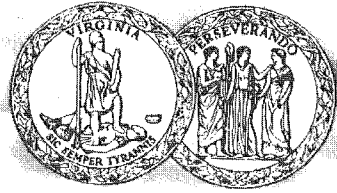
COMMONWEALTH OF VIRGINIA

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STATE CORPORATION COMMISSION

December 1, 2009

TO: The Honorable Timothy M. Kaine
Governor, Commonwealth of Virginia

Members of the Virginia General Assembly

The State Corporation Commission is pleased to transmit its evaluation of the 2009 Conservation, Efficiency and Renewable Resource Self-Assessment Report of the Virginia Electric Cooperatives. This report was submitted to the Commission on October 30, 2009, to evaluate for accuracy and completeness and to forward to the Governor and the General Assembly by December 1, 2009, pursuant to Chapter 824 of the 2009 Acts of the General Assembly. As always, we will gladly provide additional information or assistance upon request.

Respectfully submitted,

Mark C. Christie
Chairman

Judith Williams Jagdmann
Commissioner

James C. Dimitri
Commissioner

Executive Summary

The State Corporation Commission (“Commission” or “SCC”) concludes that the 2009 Conservation, Efficiency and Renewable Resource Self-Assessment Report of the Virginia Electric Cooperatives (“Report”) appears complete and accurate. The Commission also notes, however, that the short turn-around time for completing its evaluation precluded the Commission from its usual practice of soliciting comments and/or testimony to provide a more thorough exploration of the Report. Furthermore, while the Commission does not take a position regarding any potential legislation discussed by the Cooperatives in the Report, it recommends further analysis of such proposals before implementation.

INTRODUCTION

The Virginia, Maryland & Delaware Association of Electric Cooperatives (“Cooperatives” or “Association”) submitted the Report on October 20, 2009. Pursuant to Chapter 824 of the 2009 Acts of Assembly (“Chapter 824”), the Cooperatives were directed to submit such a Report to the Commission to evaluate for accuracy and completeness before forwarding to the Governor and the General Assembly. Specifically Chapter 824 provides as follows:

2. That each utility consumer services cooperative (cooperative) organized or operated pursuant to Article 1 (§ [56-231.15](#) et seq.) of Chapter 9.1 of Title 56 of the Code of Virginia shall, on or before October 31, 2009, file with the State Corporation Commission (Commission) an assessment of the statutory, regulatory, organizational, physical, contractual, financial, and market impediments to cooperative implementation of initiatives relating to dynamic rates, standby rates, interruptible rates, and rates for purchases of electricity generated from renewable sources. Each cooperative shall conduct its assessment and submit such assessment individually, collectively with one or more other cooperatives, or collectively through an association of cooperatives. The Commission shall review each assessment to evaluate its accuracy and completeness. On or before December 1, 2009, the Commission shall forward each assessment to the Governor and the General Assembly along with the Commission's evaluation of the accuracy and completeness of each report.

SUMMARY AND EVALUATION OF REPORT

The Report describes the Cooperatives and their role in the electric industry. It also outlines the distinctions between cooperatives and investor-owned utilities. The Report identifies the primary distinctions as: (1) Cooperative owners are also their customers; (2) Cooperative rates reflect their costs; and (3) Cooperative assessment of risks and opportunities focus on the benefit to the member-consumer to promote reliability and decrease costs. The Cooperatives point out that their governance, organizational and financial characteristics differ from other utilities and reflect their rural heritage, demographics and load characteristics. The Report further recognizes that

“there is nearly as much diversity among Cooperatives” with regard to “size, demographics, geography, topography, line density, access to infrastructure, and deployment of advanced technologies” as exists with investor-owned utilities.

The Report highlights the Cooperatives’ history to promote demand response and energy efficiency programs, describing established load control programs, consumer education efforts, and exploring future programs such as advanced, prepaid metering technology. The Report discusses “the specific statutory, regulatory, organizational, physical, contractual, financial and market impediments to Cooperative implementation of initiatives relating to dynamic rates, standby rates, interruptible rates and rates for purchases of electricity generated from renewable sources.” A brief summary of such discussion within the Report is provided as Attachment A.

The Cooperatives believe there are statutory impediments to starting two potential promising programs, prepaid metering and tariffs for energy derived 100% from renewable resources, and that legislation appears necessary for the Cooperatives to implement. The Report recommends the following:

Enact legislation clarifying the validity in Virginia of rates for electricity from 100 percent renewable energy using RECs to qualify power sold under such rates as 100 percent renewable energy.

Enact legislation clarifying the installation of prepaid meters in support of prepaid service, and the operation of those meters to terminate service when prepayment is exhausted, does not violate any pre-termination notice requirement.

Recognize the Cooperatives’ legacy of proactive leadership in conservation, demand response, and energy efficiency in benchmarking future initiatives.

Adopt an analysis equivalent to the Cooperatives’ Member-Consumer Benefit Analysis model in deliberations of future initiatives that may affect the Cooperatives, and refrain from enacting mandates that will impose costs on cooperative member-consumers without specific commensurate benefits to those same member-consumers.¹

Upon review, the Report appears complete. The Report provides a good history of the Cooperatives’ role in the electricity industry and a description of what they have accomplished and their future plans with respect to energy conservation, energy

¹ Report at p. 69.

efficiency and renewable energy. However, the Cooperatives' stated impediments to the implementation of programs relating to dynamic rates, standby rates, interruptible rates, and rates for purchases of electricity generated from renewable sources warrant additional analysis.

On page 64, the Report states "Virginia does not recognize RECs [renewable energy credits] as an acceptable method to offer renewable energy rates." This is not entirely correct as the SCC has approved programs offering the opportunity to support renewable power through the purchase of RECs (Case Nos. PUE-2008-00044 and PUE-2008-00057). The SCC has, however, determined that such purchases of RECs do not constitute the "purchase [of] electric energy provided 100% from renewable energy" as specified in § 56-577 A 5 of the Code of Virginia and, as such, do not satisfy the required statutory criteria for eliminating the option for other suppliers to provide such renewable energy.

Additionally, the Cooperatives use this forum to raise a regulatory concern associated with prepaid meters. It is unclear how prepaid meters relate to "dynamic rates, standby rates, interruptible rates and rates for purchase of electricity generated from renewable resources." Regardless, the Commission is unable to reach a conclusion regarding the merits of prepaid meters or any potential impediment to their implementation without further information. Moreover, while the Commission does not take a position regarding potential legislation related to prepaid meters, the Commission notes the performance details of such a program should be thoroughly addressed to avoid any unintended consequences regarding termination of service.²

CONCLUSION

The Commission concludes that the Cooperatives' Report appears complete and accurate. The Commission also notes, however, that the short turn-around time to receive, review and report on the Cooperatives' submission precluded the SCC from its usual

² See *The Dallas Morning News*, *Public Utility Commission working on rules that target prepaid electricity companies*, October 26, 2009.

practice of soliciting comments and/or testimony to provide a more thorough exploration of the Report.

The Commission forwards the 2009 Conservation, Efficiency and Renewable Resource Self-Assessment Report of the Virginia Electric Cooperatives to the Governor and the General Assembly.

Attachment A

The Cooperatives' Report is a broad, "big picture" overview of the fundamental differences in the organization, governance and business model that differentiates investor-owned electric utilities from the electric service Cooperatives that operate in the Commonwealth. The Report claims these differences require that the Cooperatives be treated differently than investor-owned electric utilities, regarding the implementation of programs on dynamic rates, standby rates, interruptible rates, and rates for the purchase of electricity generated by renewable resources, pursuant to Chapter 824 of the 2009 Virginia Acts of Assembly.

The Report explains that the Cooperatives are subject to uncoordinated regulation from federal and state agencies that hinders the development of certain programs. Higher rates of return and tax incentives are not effective, because Cooperatives are non-profit enterprises, owned by its members, following cooperative principles. In addition, the Cooperatives vary greatly by service area characteristics, number of customers, and financial resources. By their nature, Cooperatives are conservative and do not like to invest in programs that are speculative.

The Report does not provide any data on specific issues affecting the Cooperatives, such as cost estimates of the mandates, but includes two tables containing service area macro variables such as demographic data, income data and customer profiles for each of the 13 Cooperatives.

The Report indicates that the Cooperatives have exercised much leadership in promoting conservation, demand response and energy efficiency, and provides a list of some of their accomplishments in these areas. The Report states that these achievements should be taken into account when setting benchmarks for future mandates.

The Cooperatives claim to face a number of obstacles to implement initiatives relating to dynamic rates, standby rates, interruptible rates, and rates to purchase electricity from renewable resources. We note the Report claims that changes to PJM's Reliability Pricing Model are regarded as an obstacle to interruptible rates and PJM's minimum size limits on power flows is a problem to the provision of renewable energy.

The Report identifies the following for the Cooperatives:

Impediments to Dynamic Rates

Overview: Such rates are expected to make demand more price elastic.

1. Statutory: None, if program passed a member-consumer benefit analysis.
2. Regulatory: None, if program passed a member-consumer benefit analysis.
3. Organizational: Cooperatives already have programs that accomplish much of the goals of this program. Additional mandates will only increase cost without providing much in new benefits.
4. Physical: Program will increase billing costs and equipment costs. There also are issues associated with the ownership and control of metering devices. By law, these rights belong exclusively to the Cooperatives.
5. Contractual: Cooperatives generally buy their power under wholesale power supply contracts. These contracts presently have limited time-based pricing options.
6. Financial: Administrative cost of implementing program will outweigh the benefits of the programs.
7. Market Impediments: Studies (internet references are given on pp. 50 and 51) show little customer interest and little customer benefit from such programs.

Assessment: Advanced metering devices and associated rates should be offered only if there is enough demand from Cooperative customers, and on a cost-effective basis. They should not be mandated.

Impediments to Stand-by Rates

Overview: Pricing such service is problematic, citing special cases within Central Virginia, Shenandoah Valley and NOVEC.

1. Statutory: None, if program passed a member-consumer benefit analysis.
2. Regulatory: None, if program passed a member-consumer benefit analysis.
3. Organizational: None, if program passed a member-consumer benefit analysis.
4. Physical: Highly customer specific, difficult to provide and hedge internally.
5. Contractual: None, if program passed a member-consumer benefit analysis.

6. Financial: Difficult to price and hedge. Program places financial burden on Cooperatives.

7. Market Impediments: None, if program passed a member-consumer benefit analysis.

Assessment: Cooperatives already offer these programs and no mandate is necessary or appropriate.

Impediments to Interruptible Rates

Overview: 10 cooperatives already have interruptible rates. Pricing (rewards and penalties) the service is difficult.

1. Statutory: None, if program passed a member-consumer benefit analysis.

2. Regulatory: None, if program passed a member-consumer benefit analysis.

3. Organizational: None, if program passed a member-consumer benefit analysis.

4. Physical: Requires good forecast of system peak demand and good communications infrastructure. Again, pricing the service is difficult.

5. Contractual: Dependent on the Cooperative's wholesale purchase power contract, which may not allow flexibility to accommodate the rates.

6. Financial: Subject to financial risks such as customers "gaming" the system.

7. Market Impediments: Must adapt changes in wholesale power market design. Example given - PJM's numerous changes to its 2006 Reliability Pricing Model can make an "interruptible rate instantly stale and ineffective."

Assessment: Cooperatives can and do offer interruptible rates. No mandate is necessary.

Rates for purchases of electricity from Renewable Sources

Overview: Cooperatives are not generators and generally do not have control over their generation resource mix. There are technical, contractual and market barriers to offer renewable energy to members.

1. Statutory: The only practical way to offer a renewable rate is to purchase renewable energy certificates ("RECs") associated with 100 percent of renewable power to be sold to customers desiring the green power. However, by regulatory determination

in Case PUE-2008-00044, Virginia does not recognize offering RECs as meeting the requirement to provide renewable energy rates. Staff clarifies that the Commission has allowed utilities to offer programs providing the opportunity to support renewable power through the purchase of RECs.

2. Regulatory: Same as statutory.

3. Organizational: Cooperatives do not control their power generation resource mix and associated power flows over the transmission grid.

4. Physical: Electric current flows in a network cannot be switched from a specific generator to a specific customer. In addition, network operation requires including other power sources in the mix sold to a customer.

5. Contractual: Most Cooperatives obtain power through wholesale power contracts and do not control the generation mix or the transmission network. Central Virginia Electric Cooperative (pp. 66 and 67) is given as an example of how wholesale power contract limitations and PJM minimum size limits on power flows can be problematic.

6. Financial: Renewable energy is more expensive than energy from fossil or nuclear sources.

7. Market Impediments: Same as financial.

Assessment: The Cooperatives will need legislation that allows the bundling of undifferentiated power with RECs and rates that recover the cost of the RECs.