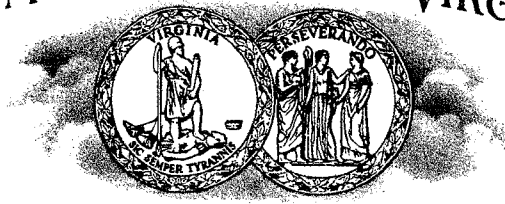


COMMONWEALTH OF VIRGINIA

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STATE CORPORATION COMMISSION

December 14, 2007

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

Members of the General Assembly of Virginia

The State Corporation Commission (Commission) is pleased to transmit the attached document resulting from the proceeding initiated by the Commission as required by Enactment Clause 3 of Chapters 888 and 933 of the 2007 Acts of the General Assembly (Senate Bill 1416 and House Bill 3068) (Third Enactment Clause). The Third Enactment Clause directed the Commission: to conduct a proceeding on cost-effective conservation through fair and effective demand-side management, conservation, energy efficiency, and load management programs, including consumer education; to answer specific questions regarding the same; and, on or before December 15, 2007, to submit its findings and recommendations to the Governor and General Assembly.

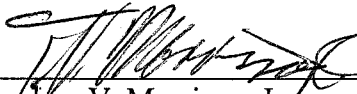
The attached Staff Report describes the required proceeding conducted under the auspices of the Commission, explains the extensive and valuable participation by numerous stakeholders in this process, sets forth the results of such stakeholder participation, and specifically addresses questions in the Third Enactment Clause. The Report concludes, among other things, that the 10% electric energy consumption reduction goal is attainable. The Report further identifies alternatives for, and additional questions related to, implementing programs to achieve such result. The Report also concludes that the desired goals cannot be reached, and the implementation questions answered, absent significant additional cost data necessary to determine whether such programs are, as referenced in the Third Enactment Clause, "cost-effective," "fair," and "efficient[]."

The Commission transmits without endorsement the Staff Report, which includes the Subgroup Reports prepared by the various working groups comprised of numerous stakeholders. The Commission does note that the economic, legislative and regulatory actions necessary to achieve a 10% reduction in electricity consumption are substantial and likely to entail significant

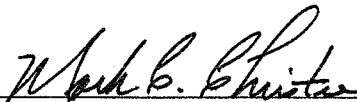
impacts on various sectors of Virginia's economy and people. Whether specific necessary actions are "fair" are ultimately major policy decisions. The Commission will provide whatever assistance the General Assembly may request in making these policy decisions.

Finally, the Third Enactment Clause directs that the Commission "shall include recommendations for any additional legislation necessary to implement the plan to meet the energy consumption goal." A plan for "cost-effective" conservation cannot be implemented without a determination of how cost-effectiveness will be defined or measured. The attached Subgroup Reports and Staff Report address, among a host of other matters, issues regarding electricity pricing and utility costs – both of which may be relevant in determining cost-effectiveness. The Staff Report, however, further notes that data on marginal and avoided costs was not included by the participants as part of this proceeding, which could provide one means to measure cost-effectiveness. Accordingly, the General Assembly may wish to consider legislation (1) to address the recommendation in the Staff Report "that Virginia's major electric utilities be required to develop and file with the [Commission] rate element specific marginal cost of service studies and associated avoided electric supply cost forecasts" (Staff Report at 62), and/or (2) to define some other guideline or mechanism for declaring whether a specific conservation plan is "cost-effective."

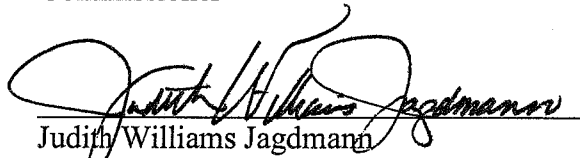
Respectfully submitted,



Theodore V. Morrison, Jr.
Chairman



Mark C. Christie
Commissioner



Judith Williams Jagdmann
Commissioner