VIRGINIA's RENEWABLE PORTFOLIO STANDARD:
UTILITIES RECEIVE MILLIONS IN BONUSES FOR BUSINESS AS USUAL

Should we give Dominion Power a huge bonus for continuing to operate a hydro-dam that's been churning out power since 1930? Under a 2007 law to encourage the development of new renewable energy sources, the state is forcing consumers to do just that.

Should someone who moves into Appalachian Power's service territory in 2025 have to pay the company a bonus for wind energy generated in 2010 in Illinois? Well, the "Renewable Portfolio Standard" law allows for that too.

BIG BONUSES WITH A LOW BAR

While almost thirty states have enacted laws that *require* utilities to generate a certain percentage of their energy from renewable sources[2], Virginia offers our utilities financial bonuses for meeting *voluntary* goals, which are weaker than many of the mandatory standards set by other states. Under the Renewable Energy Portfolio Standard (RPS) law (§ 56-585.2) passed in 2007, the companies that meet Virginia's renewable energy goals are eligible to receive big bonuses, awarded through higher rates charged to residential and commercial customers.

CUSTOMER RATES TO FUND $90 MILLION IN RPS BONUSES

The commonwealth's two largest utilities, Dominion Virginia Power and Appalachian Power, have applied for renewable energy bonuses under the RPS and regulators at the Virginia State Corporation Commission (SCC) approved their requests for the earnings period of 2011-2012. For Dominion Virginia Power, this will mean earning approximately $76 million extra from customers over two years. For Appalachian Power, it will mean earning approximately $15 million extra.

Dominion RECs[1] Purchased Toward RPS in 2010 (by Age of Facility)

Decade REC-Supplying Units Were Placed In-Service	Number of Units
1901-1910	1
1911-1920	7
1921-1930	4
1931-1940	6
1941-1950	0
1951-1960	1
1961-1970	0
1971-1980	0
1981-1990	7
1991-2000	2
2001-2010	0
TOTAL	**28**

Since Virginia, like many states, has a "regulated" electricity service structure, the rates that investor-owned electric utilities are allowed to charge are set by state regulators every two years. The SCC reviews each electric utility's rates and uses Virginia law to decide how big of a pot of money the company is authorized to earn from customers over the next two years. Additionally, the Commission looks back at the previous two years to see whether the amount the utility earned during that time is in line with what was approved two years before. Depending on what the SCC finds, it could order the company to return some of the money to customers to make up for over-earning, allow the company to raise rates to compensate for

[1] A Renewable Energy Certificate (REC) is a tradable commodity that represents the environmental attributes of 1 megawatt-hour (MWh) of renewable energy. When a company generates a MWh of electricity from a renewable energy resource, it can sell the power onto the grid and also sell a REC for that power, either to the same buyer or a different one.

[2] *Renewable Portfolio Standard Policies.* (Retrieved: October 17, 2012). Database of State Incentives for Renewables & Efficiency: http://www.dsireusa.org/documents/summarymaps/RPS_map.pdf

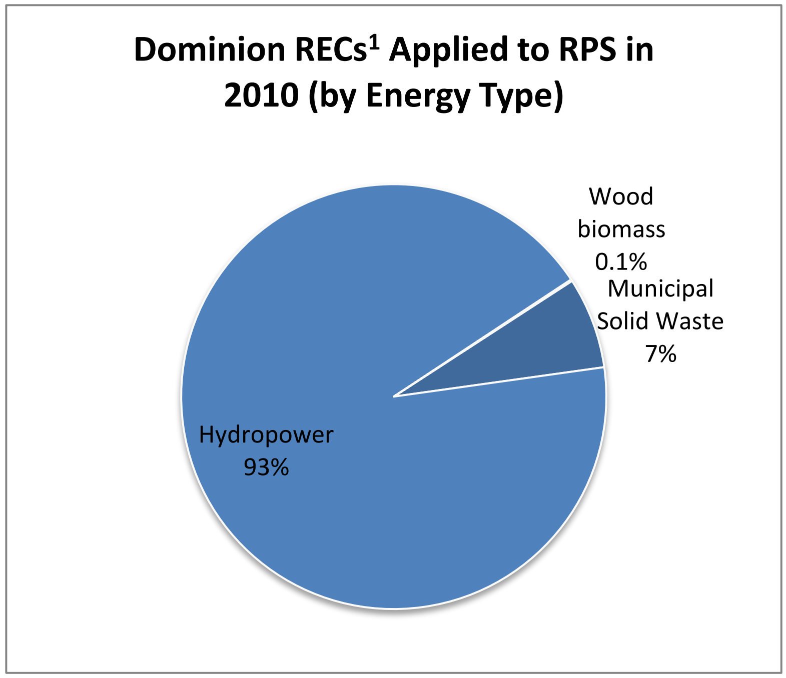
under-earning or decide that the amount the company earned was close enough to the amount for which it was approved.

In 2011, the SCC announced that it had awarded extra profit to both Dominion and Appalachian Power in their approved 2011-2012 earnings for meeting the RPS goals. This reward of 0.5 percent (50 “basis points”) was incorporated into the total 10.9 percent “return on equity” (profit) that the utilities were approved to collect. For Dominion, the bonus increases the company's allowed revenue over the course of two years by approximately $76 million.[3,4] For Appalachian Power, the bonus increases allowed revenue over two years by approximately $15 million.[5]

Legislators passed the Renewable Portfolio Standard intending to spur the growth of Virginia-made renewable energy by offering incentives to utilities. Instead, under the law, Dominion and Appalachian have been able to claim huge rewards for doing little more than filling out paperwork.

PROGRAM MEANT TO SPUR RENEWABLE ENERGY GROWTH INSTEAD REWARDS BUSINESS AS USUAL

The RPS was intended to spur the growth of a renewable energy industry in the commonwealth, creating new, home-grown jobs while lowering our emissions of greenhouse gases and other pollutants. Instead, the companies are meeting the goals largely with power generated at facilities built before the program was created, many of them outside of Virginia. Neither utility has invested in solar power to meet the RPS goals. Appalachian has made only minor investments in wind power, which it buys from Indiana and Illinois. The grand majority of the facilities being counted toward the RPS are decades-old hydro-dams, such as Dominion’s Cushaw dam, which has been generating power since 1930.



Source: PJM Generation Attribute Tracking System (GATS) RPS Retired Certificates Report

LOOPHOLES FURTHER WEAKEN THE LAW

In addition to weak standards for the type of energy that counts toward the RPS, the law also includes loopholes. A 2011 ruling by the State Corporation Commission[6] found that, under the RPS law as written, a single MWh of renewable energy can be claimed by two different companies. This double-counting can occur because Virginia’s RPS law doesn’t require

[3] Commonwealth of Virginia State Corporation Commission. (November 30, 2011). News Release: SCC Orders Dominion Virginia Power To Refund $78.3 Million To Customers.

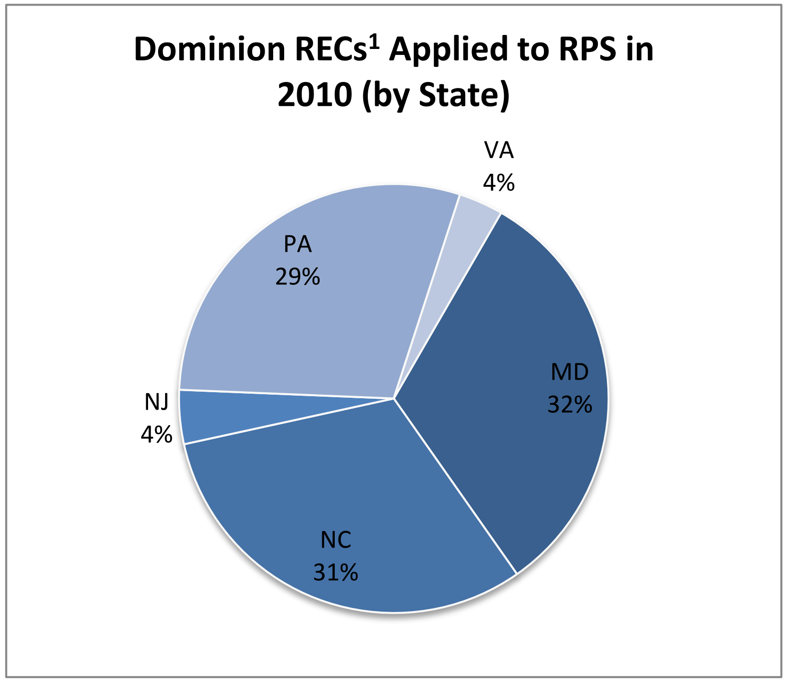
[4] Virginia Committee for Fair Utility Rates. (October 24, 2011). Post-Hearing Brief in State Corporation Commission case PUE-2011-00027 - public version. On page 27, the testimony states, “With 100 basis points of ROE worth approximately $76 million per year in revenue requirement…” Hence, 50 basis points will be worth approximately $76 million over two years.

[5] Commonwealth of Virginia State Corporation Commission. (November 30, 2011). News Release: SCC Approves $85.1 Million Revenue Increase For Appalachian Power.

[6] Commonwealth of Virginia State Corporation Commission. (June 17, 2011). Order on Petition – Case No. PUE-2010-00132 – Petition of Dominion Virginia Power for a declaratory judgment.

companies to account for each MWh of energy with a Renewable Energy Credit (REC)[1] the way other states do (such as North Carolina and Maryland, for example).

For instance, Dominion purchases energy from a trash incinerator in Alexandria that is owned by a company called Covanta. Under the RPS law, Dominion can count each MWh of that power toward the RPS but Covanta can also sell a REC for each MWh to another company, like Appalachian. This type of loophole further undermines the efficacy of the RPS.



Source: PJM Generation Attribute Tracking System (GATS) RPS Retired Certificates Report

DOMINION GETTING $76 MILLION BONUS FROM CUSTOMERS FOR OLD, OUT-OF-STATE ENERGY

Dominion, the state's largest electricity supplier, will receive approximately $76 million from customers during the 2011-2013 rate period for meeting the RPS goal in 2010.

The company did so mostly with old, out-of-state energy, and with zero wind or solar power.

SOLUTIONS

- **Virginia-Made:** Require that energy used toward the RPS come from sources in the commonwealth. If Virginians are paying the bonus, we should reap the rewards—cleaner air and jobs.

- **Wind & Solar:** Require that a portion of the energy companies apply to meet the goals comes from wind and/or solar power. This will help to ensure that the RPS spurs the growth of clean, modern technologies in the commonwealth.

- **No Double-Counting:** Require that renewable energy credited toward the RPS be fully accounted for and only counted once.

- **Limit "Banking":** Limit the number of years that a company can "roll over" a given megawatt-hour of renewable energy before counting it toward an RPS goal. We should not allow a company to credit energy generated in 2010 to its 2025 goal.

CONTACT

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