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One of the most important issues this session was the issue of the regulation of the electric utility industry. Senate Bill 1416 and House Bill 3068 were ultimately a result of the efforts of the members of the Commerce and Labor Committees of the House and Senate, the Office of the Attorney General, and many stakeholder organizations ranging from manufacturers to retailers to consumer groups to environmental groups and to the utilities. This landmark legislation will put back in place a regulatory system for the future of Virginia. It is extremely necessary that you recognize the concerns of consumers and business as well as those of the utilities. Virginia has for the past decade kept in place a commission to oversee the regulatory relationship of the utilities and the State Corporation Commission and consumers of electricity. This commission will remain and oversee the implementation of these changes in the regulation of electric utility service.

The legislation addresses several areas of concern that relate specifically to holding down the adverse impact of very high electric utility rates that many states in the country have seen. First and foremost, this legislation provides a mechanism for the deferral of portions of the fuel adjustment increases that are programmed to take place over the next 12-24 months.

It also puts in place the requirement for a “going-in” rate case for utilities serving Virginia consumers. This means that the State Corporation Commission will be examining over the next 18 months the justification and documentation for rates being established for electric service. In conjunction with this rate case there will be an additional biennial review of Virginia utilities. Their rate structures and costs will be analyzed against a “peer group” to ensure Virginia ratepayers that Virginia utilities are not out of line when it comes to electricity rates. There will also be a base-line comparison of rates and costs against the consumer price index. On top of that, if a given utility is identified with “over earnings,” those earnings will be shared by ratepayers in the form of SCC mandated reductions against fuel cost increases. Also in this area, rate shock collars will be put in place. These collars will preclude extreme movement of rates as a result of circumstances beyond the control of utilities, the commission and the state. All of these initiatives should provide the ratepayer with a level of confidence over the years that what they are paying for electricity is appropriate.

Additionally, some other areas of concern were addressed to provide for incentives for utilities to build “base line” generating units. These units would more typically be either nuclear or coal fired. In today’s environment, the cost and environmental implications associated with building new plants is so extreme that a mechanism for some risk premium had to be improvised to ensure that Virginia consumers would have access to Virginia plants serving native load needs. These risk premiums will add to the cost of building these plants and to the cost of electricity. Near term higher prices for these purposes will ultimately lead to longer term

investments that provide future rate stability. The State Corporation Commission is also provided the reinstatement of the “reasonable and prudent” standard that can be applied to the rate making process on these and other factors. The legislation also addresses the prospect of off-system sales by Virginia utility-owned generators. It provides that 75% of all profit margins acquired as a result of off-system sales will be shared with ratepayers and applied against fuel factor adjustments.

Finally, this legislation for the first time in Virginia puts into place a performance incentive that is basically tied to a renewable portfolio standard. This standard will incrementally advance the development of renewable energy sources over the next 15 years. The ultimate goal for 2022 is to have a renewable energy provision of 12% by Virginia utilities. The performance incentive is aimed at all renewable energy sources but it expands to a double credit system for renewable energy produced by solar or wind resources.

I cannot overstate the importance that these changes will have in the future with regard to Virginia’s ability to provide for the needs of our citizens and to ensure that these needs are fulfilled in terms of electric energy. I want to assure you again that this process will continue to evolve and my interest is to ensure that the needs of Virginia consumers are adequately and appropriately met.

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