Department of Planning and Budget
2006 Fiscal Impact Statement

1. **Bill Number** SB262

House of Origin	☐ Introduced	☐ Substitute	☐ Engrossed
Second House	☐ In Committee	☒ Substitute	☐ Enrolled

2. **Patron** Wagner

3. **Committee** Commerce and Labor

4. **Title** Virginia Energy Plan.

5. **Summary/Purpose:** This bill establishes an energy policy of the Commonwealth and directs the Division of Energy of the Department of Mines, Minerals and Energy, in consultation with the State Corporation Commission, Department of Environmental Quality, and Virginia Center for Coal and Energy Research, to prepare a comprehensive Virginia Energy Plan to implement the policy. The bill also outlines a number of additional measures related to energy policy including; sites for certain low-emission energy facilities; off-shore energy resource development; exempting certain certified pollution control equipment and facilities from local property taxation; clean coal projects; energy efficiency in state buildings; use of biodiesel fuel in public transportation vehicles; the enforceability of covenants restricting the use of solar energy collection devices; motor vehicle fuel efficiency standards; and the establishment of a coastal energy research center, all of which comprise components of the Virginia Energy Plan.

6. **Fiscal Impact (summary):**

Section of Legislation	Fiscal Impact
Exemptions from local sales tax for certified pollution control equipment	Indeterminate
Chapter 1 – Energy Policy of the Commonwealth	No anticipated impact; Chapter 1 simply states policy and does not require direct action.
Chapter 2 – Virginia Energy Plan	DMME's costs are estimated to be $230,000 in FY2007 and $80,000 on-going. Impacts to DGS, SCC, and the Virginia Center for Coal and Energy Research cannot be determined.
Chapter 3 – Offshore Energy Resources	Indeterminate
Chapter 4 – Clean Coal Projects	The Virginia Center for Coal and Energy Research estimates they will need 2.5 additional positions at an annual cost of $325,000 (includes salary, benefits, and travel costs). The remaining fiscal impact will equal the amount of funding the General Assembly elects to appropriate to the Clean Coal Technology Research Fund.

Chapter 5 – Energy Efficient Public Buildings	Requiring an energy consumption analysis be conducted for major construction and renovation will increase annual capital costs by approximately $560,000 to $840,000.
Chapter 6 – Biodiesel Fuel	No anticipated impact
Chapter 7 – Virginia Coastal Energy Research Consortium	Indeterminate
Chapter 8 – Enforceability of Covenants Restricting Solar Energy Collection Devices	No anticipated impact.
Chapter 9 – Designation of Optimal Low-Emission Energy Facility Sites	The bulk of the fiscal impact cannot be determined; however, SCC states that consulting costs will likely be in excess of $500,000.
Chapter 10 – Motor Vehicles Fuel Efficiency Standards	Indeterminate
Chapter 11 – Renewable Electricity Production Grant Program	Total annual demand for grant funding is estimated to be $21.4 million, but the fiscal impact will equal the amount of funding the General Assembly elects to appropriation to the Renewable Electricity Production Grant Fund.
Chapter 12 – Photovoltaic, Solar, and Wind Energy Utilization Grant Program	The fiscal impact will equal the amount of funding the General Assembly elects to appropriation to the Photovoltaic, Solar, and Wind Energy Utilization Grant Fund.

7. **Budget amendment necessary:** Yes, Item 115 for the Department of Mines, Minerals and Energy; Item 178 for Old Dominion University; Item 220.E. for the Virginia Center for Coal and Energy Research; and Item 467 for the State Corporation Commission.

   The only budget amendment included in either the House or the Senate's proposed budgets is for one full-time position and $230,000 in FY2007 and $80,000 in FY2008 to address the needs of the Department of Mines, Minerals, and Energy to carry out the provisions of the Virginia Energy Plan.

7. **Fiscal Impact (detail):**

   <u>Chapter 2 – Virginia Energy Plan:</u>
   The Department of Mines, Minerals and Energy (DMME), in consultation with the State Corporation Commission (SCC), the Department of Environmental Quality (DEQ), and the Center for Coal and Energy Research at Virginia Tech, are charged with preparing a comprehensive Virginia Energy Plan covering a 10-year period. According to DMME, developing the plan would require the agency to hire an additional position to manage the process and a consulting contract to develop the information needed to create the plan. DMME estimates that the additional position would require a budget amendment of $80,000 (GF) and one FTE in order to fund salary, fringe and support costs. DMME also estimates,

based on experiences in other states, that consulting services to develop the plan would cost approximately $150,000. Therefore, developing the plan would cost $230,000 in FY2007 and require an $80,000 on-going appropriation. According to both the SCC and DEQ, the fiscal implications of assisting with the development of the Virginia Energy Plan cannot be estimated at this time. Depending on the amount of work required to assist with the plan's development, which is unknown at this time, both agencies may require additional resources. The Center for Coal and Energy Research has also estimated the impact of this legislation and has determined that they will require 2.5 additional positions. These positions would primarily be needed to address other components of this legislation (and will therefore be outlined in more detail later in this fiscal impact statement) but will also contribute to assisting with development of the Virginia Energy Plan. It is not possible to determine the extent to which the requested positions will contribute directly to the development of the plan as opposed to addressing the other requirements of this legislation.

Chapter 3 – Offshore Energy Resources:

Chapter 3 states that the Commonwealth shall encourage members of the State Congressional Delegation and federal executive agencies to obtain an exemption from the moratorium on offshore natural gas exploration, development, and production activities and generally enhance states' authority over coastal and offshore resources. The Secretary of Commerce and Trade is charged with submitting an annual report detailing this effort. The fiscal impact of these efforts cannot be determined.

Chapter 3 also creates the State Offshore Energy Revenue Fund. At the close of each fiscal year the Comptroller shall transfer to the fund all license fees, lease payments, royalties, and similar moneys paid by the federal government to the Commonwealth attributed to the development of energy resources in areas off the Commonwealth's Atlantic shore that are under federal jurisdiction. Currently, the Commonwealth is not collecting any such moneys and, until the exemption outlined previously in this chapter is achieved, no moneys of this nature will be available for collection. Therefore, at this time it is not possible to determine the amount of funding that may be deposited into the State Offshore Energy Revenue Fund.

Chapter 4 – Clean Coal Project:

Chapter 4 requires the Virginia Center for Coal and Energy Research at Virginia Tech to work with qualified state institutions of higher education to apply to the federal Secretary of Energy for competitive, merit-based grants to be used to assist in financing the establishment of a center for excellence in advancing new clean coal technologies. Chapter 4 also establishes the Clean Coal Technology Research Fund to be used solely for the payment of grants to state institutions of higher education to assist in the development and implementation of clean coal technologies. The Virginia Center for Coal and Energy Research is charged with administering the Fund. According to the Center, implementation of this legislation will require 2.5 additional FTE's. One position would act as a Senior Research Associate and be tasked primarily with working with state institutions of higher education on multi-partnership proposals. The second position would act as a Research Associate and would serve a more technical role by monitoring and evaluating energy data. The third half-time position would serve a policy-related role and work closely with the applicable federal government agencies. The Center estimates that the 2.5 positions, including salary, benefits, and travel costs would require an appropriation of approximately $325,000 (GF) annually. Additional fiscal impact of the Clean Coal Technology Research

Fund grant program will equate to the amount of funding the General Assembly elects to appropriate to the Fund.

Chapter 5 – Energy Efficient Public Buildings:
Chapter 5 requires that an energy consumption analysis, identifying all reasonable cost-effective energy conservation measures and alternative energy systems, be prepared by a professional engineer or licensed architect anytime an authorized state agency determines that any major facility is to be constructed or renovated. According to the Department of General Services (DGS), agencies undertaking such capital projects will experience increased capital costs of approximately $.20 per square foot. Approximately 2.8 million to 4.2 million square feet are constructed or renovated annually. Applying the increased cost figure of $.20 per square foot, this legislation could potentially increase annual capital costs by approximately $560,000 to $840,000. DGS indicated that there will be no direct administrative impact to them as a result of their role outlined in the legislation. Additionally, any cost incurred by the Division of Energy of the Department of Mines, Minerals, and Energy is to be reimbursed by the agency undertaking the capital project. It is not possible to estimate any fiscal impact resulting from these reimbursements at this time.

Chapter 6 – Biodiesel Fuel:
Chapter 6 encourages, but does not require, the use of biodiesel and other alternative fuels, to the extent practicable, in buses and other vehicles used to provide public transportation in the Commonwealth. Since the language does not require any action, there is no fiscal impact as a result of the language in Chapter 6 of this legislation.

Chapter 7 – Virginia Energy Coastal Research Consortium:
Chapter 7 establishes the Virginia Coastal Research Consortium to be located at Old Dominion University. The Research Consortium shall include Old Dominion University, the Virginia Institute of Marine Science, the Virginia Tech Advanced Research Institute, James Madison University, and Norfolk State University and shall serve as an interdisciplinary study, research, and information resource for the Commonwealth on coastal energy issues. According to Old Dominion University, as the bills are currently written the fiscal impact to the university is indeterminate. Ultimately the fiscal impact will be determined by the extent to which the General Assembly chooses to fund the Research Consortium. Costs may include salary and benefits for the director and any staff determined necessary to hire, any capital costs associated with providing research facilities and office space for Research Consortium staff, and any money appropriated for research to be conducted at the Research Consortium.

Chapter 8 – Enforceability of Covenants Restricting Solar Energy Devices:
Chapter 8 restricts community associations from enacting any provisions restricting solar power or use of solar energy collection devices on units or lots that are part of the development. The language contained within this section has no anticipated fiscal impact.

Chapter 9 – Designation of Optimal Low-Emission Energy Facility Sites:
Chapter 9 requires the State Corporation Commission (SCC) to develop and apply procedures for numerically scoring parcels of real property in order to provide a transparent means of comparing the relative suitability of sites for use as low-emission energy facilities, such as wind energy facilities, liquefied natural gas facilities, nuclear energy facilities, and solar energy facilities. Additionally, this chapter directs the establishment of a one-stop permitting

process for low-emission energy facilities. According to the SCC, the fiscal implications of this legislation are unknown at this time. Although the SCC will attempt to utilize existing resources to the extent possible, key provisions of this bill would require the use of technical consultants to aide and supplement the SCC's professional staff. For example, inasmuch as the federal Nuclear Regulatory Commission has the sole authority under law to approve siting for nuclear energy facilities, the SCC does not have nuclear siting experts on staff. Similarly, the SCC does not have experts on liquefied natural gas facility siting. Consequently, according to the SCC, the most substantial fiscal impact of this section may be costs associated with hiring outside technical consultants for developing parcel scoring methodology associated with siting nuclear and liquefied natural gas facilities. The employment of credible and proficient technical consultants in these two complex areas could cost the SCC in excess of $500,000. However, it is not possible to develop precise estimates at this time. Correspondingly, the Department of Environmental Quality (DEQ) has also determined that the fiscal impact on DEQ as a result of their role in this legislation cannot be determined at this time.

Chapter 10 – Motor Vehicle Fuel Efficiency Standards:

Chapter 10 states that the Commonwealth shall encourage members of the State Congressional Delegation and federal executive agencies to develop, support, and enact federal legislation that will increase the corporate average fuel economy standards for passenger cars and light trucks manufactured for sale in the United States, commonly known as the "CAFE standards". The fiscal impact of these efforts cannot be determined.

Chapter 11 – Renewable Electricity Production Grant Program:

Chapter 11 establishes the Renewable Electricity Production Grant Fund. Subject to appropriation of sufficient moneys in the Fund, an eligible corporation may receive a grant payable from the Fund for certain kilowatt hours of electricity produced after December 31, 2005. The grant amount shall be 0.85 cents for each kilowatt hour of electricity (i) produced by the corporation from qualified energy resources at a qualified Virginia facility and (ii) sold and transmitted into the electric grid, or used in production by a qualified Virginia facility, in a calendar year. "Qualified energy resources" means the same as that term is defined by the Internal Revenue Code § 45(c)(1), and includes wind, close-loop biomass, organic, livestock, and poultry waste resources and lignin and other organic by-products of kraft pulping processes, bark, chip rejects, sawdust, fines and other wood waste, regardless of the point of origin. Based on the 2002 renewable energy capacity and generation data for Virginia from the National Renewable Energy Laboratory (NREL) and the United State Department of Energy's Energy Information Administration (EIA), the Commonwealth's total non-hydro renewable energy capacity was approximately 2,518,000,000 kilowatt hours in 2002. Based on the grant amount of 0.85 cents per kilowatt hour, total demand for grant funding would be approximately $21,403,000.

Chapter 12 – Photovoltaic, Solar, and Wind Energy Utilization Grant Program

Chapter 12 establishes a grant program for payments to individuals or corporations for a portion of the cost of photovoltaic property, solar water heating property, or wind-powered electrical generators placed in service during the calendar year by such individual or corporation. The grant amount shall be 15% of the total installed cost not to exceed $2,000 for each system of photovoltaic property, $1,000 for each system of solar water heating property, and $1,000 for each system of wind-powered electrical generators. The fiscal impact of the grant program will equate to the amount of funding the General Assembly elects to appropriate to the Fund.

9. **Specific agency or political subdivisions affected:** Department of Mines, Minerals, and Energy; Department of Environmental Quality; Virginia Center for Coal and Energy Research; State Corporation Commission; Department of General Services; Department of Taxation; Old Dominion University; Norfolk State University; College of William & Mary; Virginia Institute of Marine Science; Secretary of Commerce and Trade; Secretary of Natural Resources; Virginia Tech Advanced Research Institute; and James Madison University.

10. **Technical amendment necessary:** None.

Other comments: The House substitute version of this legislation eliminates the income tax deductions outlined in § 58.1-322 of the Senate version. Therefore, the House substitute lessens the anticipated fiscal impact of this legislation. The fourth and fifth enactment clauses related to the income tax deductions outlined in § 58.1-322 have also been deleted because they are no longer relevant.

The House substitute also expands the Virginia Coastal Research Consortium to also include the Virginia Tech Advanced Research Institute and James Madison University. The fiscal impact of including these additional entities cannot be determined.

The remaining changes to the bill do not change the fiscal impact.

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cc: Secretary of Commerce and Trade
Secretary of Natural Resources
Secretary of Finance
Secretary of Education