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SENATE BILL NO. 493

AMENDMENT IN THE NATURE OF A SUBSTITUTE
(Proposed by the Senate Committee on Commerce and Labor
on February 6, 2012)

(Patrons Prior to Substitute—Senators Watkins and Puckett)

A *BILL to amend and reenact §§ 56-576 and 56-600 of the Code of Virginia, relating to electric and natural gas utilities; energy efficiency programs.*

Be it enacted by the General Assembly of Virginia:

1. That §§ 56-576 and 56-600 of the Code of Virginia are amended and reenacted as follows:

§ 56-576. Definitions.

As used in this chapter:

"Affiliate" means any person that controls, is controlled by, or is under common control with an electric utility.

"Aggregator" means a person that, as an agent or intermediary, (i) offers to purchase, or purchases, electric energy or (ii) offers to arrange for, or arranges for, the purchase of electric energy, for sale to, or on behalf of, two or more retail customers not controlled by or under common control with such person. The following activities shall not, in and of themselves, make a person an aggregator under this chapter: (i) furnishing legal services to two or more retail customers, suppliers or aggregators; (ii) furnishing educational, informational, or analytical services to two or more retail customers, unless direct or indirect compensation for such services is paid by an aggregator or supplier of electric energy; (iii) furnishing educational, informational, or analytical services to two or more suppliers or aggregators; (iv) providing default service under § 56-585; (v) engaging in activities of a retail electric energy supplier, licensed pursuant to § 56-587, which are authorized by such supplier's license; and (vi) engaging in actions of a retail customer, in common with one or more other such retail customers, to issue a request for proposal or to negotiate a purchase of electric energy for consumption by such retail customers.

"Combined heat and power" means a method of using waste heat from electrical generation to offset traditional processes, space heating, air conditioning, or refrigeration.

"Commission" means the State Corporation Commission.

"Cooperative" means a utility formed under or subject to Chapter 9.1 (§ 56-231.15 et seq.) of this title.

"Covered entity" means a provider in the Commonwealth of an electric service not subject to competition but shall not include default service providers.

"Covered transaction" means an acquisition, merger, or consolidation of, or other transaction involving stock, securities, voting interests or assets by which one or more persons obtains control of a covered entity.

"Curtailement" means inducing retail customers to reduce load during times of peak demand so as to ease the burden on the electrical grid.

"Customer choice" means the opportunity for a retail customer in the Commonwealth to purchase electric energy from any supplier licensed and seeking to sell electric energy to that customer.

"Demand response" means measures aimed at shifting time of use of electricity from peak-use periods to times of lower demand by inducing retail customers to curtail electricity usage during periods of congestion and higher prices in the electrical grid.

"Distribute," "distributing," or "distribution of" electric energy means the transfer of electric energy through a retail distribution system to a retail customer.

"Distributor" means a person owning, controlling, or operating a retail distribution system to provide electric energy directly to retail customers.

"Electric utility" means any person that generates, transmits, or distributes electric energy for use by retail customers in the Commonwealth, including any investor-owned electric utility, cooperative electric utility, or electric utility owned or operated by a municipality.

"Energy efficiency program" means a program that reduces the total amount of electricity that is required for the same process or activity implemented after the expiration of capped rates. Energy efficiency programs include equipment, physical, or program change designed to produce measured and verified reductions in the amount of electricity required to perform the same function and produce the same or a similar outcome. Energy efficiency programs may include, but are not limited to, (i) programs that result in improvements in lighting design, heating, ventilation, and air conditioning systems, appliances, building envelopes, and industrial and commercial processes; ~~and~~ (ii) measures, such as but not limited to the installation of advanced meters, implemented or installed by utilities, that reduce fuel use or losses of electricity and otherwise improve internal operating efficiency in generation, transmission, and distribution systems; *and (iii) customer engagement programs that result in*

60 *measurable and verifiable energy savings that lead to efficient use patterns and practices.* Energy
61 efficiency programs include demand response, combined heat and power and waste heat recovery,
62 curtailment, or other programs that are designed to reduce electricity consumption so long as they reduce
63 the total amount of electricity that is required for the same process or activity. Utilities shall be
64 authorized to install and operate such advanced metering technology and equipment on a customer's
65 premises; however, nothing in this chapter establishes a requirement that an energy efficiency program
66 be implemented on a customer's premises and be connected to a customer's wiring on the customer's
67 side of the inter-connection without the customer's expressed consent.

68 "Generate," "generating," or "generation of" electric energy means the production of electric energy.

69 "Generator" means a person owning, controlling, or operating a facility that produces electric energy
70 for sale.

71 "Incumbent electric utility" means each electric utility in the Commonwealth that, prior to July 1,
72 1999, supplied electric energy to retail customers located in an exclusive service territory established by
73 the Commission.

74 "Independent system operator" means a person that may receive or has received, by transfer pursuant
75 to this chapter, any ownership or control of, or any responsibility to operate, all or part of the
76 transmission systems in the Commonwealth.

77 *"In the public interest," for purposes of assessing energy efficiency programs, describes an energy*
78 *efficiency program if, among other factors, the net present value of the benefits exceeds the net present*
79 *value of the costs as determined by the Commission upon consideration of the following four tests: (i)*
80 *the Total Resource Cost Test; (ii) the Utility Cost Test (also referred to as the Program Administrator*
81 *Test); (iii) the Participant Test; and (iv) the Ratepayer Impact Measure Test. Such determination shall*
82 *include an analysis of all four tests, and a program or portfolio of programs shall not be rejected based*
83 *solely on the results of a single test. In addition, an energy efficiency program may be deemed to be "in*
84 *the public interest" if the program provides measurable and verifiable energy savings to low-income*
85 *customers or elderly customers.*

86 "Measured and verified" means a process determined pursuant to methods accepted for use by
87 utilities and industries to measure, verify, and validate energy savings and peak demand savings. This
88 may include the protocol established by the United States Department of Energy, Office of Federal
89 Energy Management Programs, Measurement and Verification Guidance for Federal Energy Projects,
90 measurement and verification standards developed by the American Society of Heating, Refrigeration
91 and Air Conditioning Engineers (ASHRAE), or engineering-based estimates of energy and demand
92 savings associated with specific energy efficiency measures, as determined by the Commission.

93 "Municipality" means a city, county, town, authority, or other political subdivision of the
94 Commonwealth.

95 "Peak-shaving" means measures aimed solely at shifting time of use of electricity from peak-use
96 periods to times of lower demand by inducing retail customers to curtail electricity usage during periods
97 of congestion and higher prices in the electrical grid.

98 "Person" means any individual, corporation, partnership, association, company, business, trust, joint
99 venture, or other private legal entity, and the Commonwealth or any municipality.

100 "Renewable energy" means energy derived from sunlight, wind, falling water, biomass, sustainable or
101 otherwise, (the definitions of which shall be liberally construed), energy from waste, municipal solid
102 waste, wave motion, tides, and geothermal power, and does not include energy derived from coal, oil,
103 natural gas or nuclear power. Renewable energy shall also include the proportion of the thermal or
104 electric energy from a facility that results from the co-firing of biomass.

105 "Retail customer" means any person that purchases retail electric energy for its own consumption at
106 one or more metering points or nonmetered points of delivery located in the Commonwealth.

107 "Retail electric energy" means electric energy sold for ultimate consumption to a retail customer.

108 "Revenue reductions related to energy efficiency programs" means reductions in the collection of
109 total non-fuel revenues, previously authorized by the Commission to be recovered from customers by a
110 utility, that occur due to measured and verified decreased consumption of electricity caused by energy
111 efficiency programs approved by the Commission and implemented by the utility, less the amount by
112 which such non-fuel reductions in total revenues have been mitigated through other program-related
113 factors, including reductions in variable operating expenses.

114 "Supplier" means any generator, distributor, aggregator, broker, marketer, or other person who offers
115 to sell or sells electric energy to retail customers and is licensed by the Commission to do so, but it
116 does not mean a generator that produces electric energy exclusively for its own consumption or the
117 consumption of an affiliate.

118 "Supply" or "supplying" electric energy means the sale of or the offer to sell electric energy to a
119 retail customer.

120 "Transmission of," "transmit," or "transmitting" electric energy means the transfer of electric energy
121 through the Commonwealth's interconnected transmission grid from a generator to either a distributor or

a retail customer.

"Transmission system" means those facilities and equipment that are required to provide for the transmission of electric energy.

§ 56-600. Definitions.

As used in this chapter:

"Allowed distribution revenue" means the average annual, weather-normalized, nongas commodity revenue per customer associated with the rates in effect as adopted in the applicable utility's last Commission-approved rate case or performance-based regulation plan, multiplied by the average number of customers served.

"Conservation and ratemaking efficiency plan" means a plan filed by a natural gas utility pursuant to this chapter that includes a decoupling mechanism.

"Cost-effective conservation and energy efficiency program" means a program approved by the Commission that is designed to decrease the average customer's annual, weather-normalized consumption or total gas bill, for gas and nongas elements combined, or avoid energy costs or consumption the customer may otherwise have incurred, and is determined by the Commission to be cost-effective ~~after analyzing such program using~~ *upon consideration, among other factors, that the net present value of the benefits exceeds the net present value of the costs under the following four tests: the Total Resource Cost Test, the Societal Test, the Program Administrator Test (also referred to as the Utility Cost Test), the Participant Test, and the Rate Ratepayer Impact Measure Test; and any other test the Commission reasonably deems appropriate. The Commission may determine the weight to be given to a test. Such determination shall include an analysis of all four tests, and a program or portfolio of programs shall not be rejected based solely on the results of a single test.* Without limitation, rate designs or rate mechanisms, customer education, customer incentives, and weatherization programs are examples of conservation and energy efficiency programs that the Commission may consider. *Energy efficiency programs that provide measurable and verifiable energy savings to low-income customers or elderly customers may also be deemed cost effective.*

"Decoupling mechanism" means a rate, tariff design or mechanism that decouples the recovery of a utility's allowed distribution revenue from the level of consumption of natural gas by its customers, including (i) a mechanism that adjusts actual nongas distribution revenues per customer to allowed distribution revenues per customer, such as a sales adjustment clause, (ii) rate design changes that substantially align the percentage of fixed charge revenue recovery with the percentage of the utility's fixed costs, such as straight fixed variable rates, provided such mechanism includes a substantial demand component based on a customer's peak usage, or (iii) a combination of clauses (i) and (ii) that substantially decreases the relative amount of nongas distribution revenue affected by changes in per customer consumption of gas.

"Fixed costs" means any and all of the utility's nongas costs of service, together with an authorized return thereon, that are not associated with the cost of the natural gas commodity flowing through and measured by the customer's meter.

"Natural gas utility" or "utility" means any investor-owned public service company engaged in the business of furnishing natural gas service to the public.

"Revenue-neutral" means a change in a rate, tariff design or mechanism as a component of a conservation and ratemaking efficiency plan that does not shift annualized allowed distribution revenue between customer classes, and does not increase or decrease the utility's average, weather-normalized nongas utility revenue per customer for any given rate class by more than 0.25 percent when compared to (i) the rate, tariff design or mechanism in effect at the time a conservation and ratemaking efficiency plan is filed pursuant to this chapter or (ii) the allocation of costs approved by the Commission in a rate case using the cost of service methodology set forth in § 56-235.2 or a performance-based regulation plan authorized by § 56-235.6, where a plan is filed in conjunction with such case.