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SENATE BILL NO. 1392

Offered January 17, 2011

A *BILL to amend and reenact § 56-585.2 of the Code of Virginia, relating to the generation of electricity from renewable sources or coalbed methane gas.*

Patron—Puckett

Referred to Committee on Commerce and Labor

Be it enacted by the General Assembly of Virginia:**1. That § 56-585.2 of the Code of Virginia is amended and reenacted as follows:**

§ 56-585.2. Sale of electricity from renewable or alternative energy sources through a renewable energy portfolio standard program.

A. As used in this section:

"Coalbed methane gas" has the same meaning assigned thereto in § 45.1-361.1.

"Renewable or alternative energy" shall have the same meaning ascribed to it in § 56-576 means electricity derived from sunlight, wind, falling water, sustainable and other biomass, waste including municipal solid waste, wave motion, tides, coalbed methane gas, and geothermal power, provided such renewable energy electricity is (i) generated or purchased in the Commonwealth or in the interconnection region of the regional transmission entity of which the participating utility is a member, as it may change from time to time; (ii) generated by a public utility providing electric service in the Commonwealth from a facility in which the public utility owns at least a 49 percent interest and that is located in a control area adjacent to such interconnection region; or (iii) represented by certificates issued by an affiliate of such regional transmission entity, or any successor to such affiliate, and held or acquired by such utility, which validate the generation of renewable or alternative energy by eligible sources in such region. "Renewable or alternative energy" shall not include electricity generated from coal, oil, nuclear fusion, or pumped storage, but shall include run-of-river generation from a combined pumped-storage and run-of-river facility.

"Total electric energy sold in the base year" means total electric energy sold to Virginia jurisdictional retail customers by a participating utility in calendar year 2007, excluding an amount equivalent to the average of the annual percentages of the electric energy that was supplied to such customers from nuclear generating plants for the calendar years 2004 through 2006.

B. Any investor-owned incumbent electric utility may apply to the Commission for approval to participate in a renewable energy portfolio standard program, as defined in this section. The Commission shall approve such application if the applicant demonstrates that it has a reasonable expectation of achieving 12 percent of its base year electric energy sales from renewable or alternative energy sources during calendar year 2022, and 15 percent of its base year electric energy sales from renewable or alternative energy sources during calendar year 2025, as provided in subsection D.

C. It is in the public interest for utilities to achieve the goals set forth in subsection D, such goals being referred to herein as "RPS Goals". Accordingly, the Commission, in addition to providing recovery of incremental RPS program costs pursuant to subsection E, shall increase the fair combined rate of return on common equity for each utility participating in such program by a single Performance Incentive, as defined in subdivision A 2 of § 56-585.1, of 50 basis points whenever the utility attains an RPS Goal established in subsection D. Such Performance Incentive shall first be used in the calculation of a fair combined rate of return for the purposes of the immediately succeeding biennial review conducted pursuant to § 56-585.1 after any such RPS Goal is attained, and shall remain in effect if the utility continues to meet the RPS Goals established in this section through and including the third succeeding biennial review conducted thereafter. Any such Performance Incentive, if implemented, shall be in lieu of any other Performance Incentive reducing or increasing such utility's fair combined rate of return on common equity for the same time periods. However, if the utility receives any other Performance Incentive increasing its fair combined rate of return on common equity by more than 50 basis points, the utility shall be entitled to such other Performance Incentive in lieu of this Performance Incentive during the term of such other Performance Incentive. A utility shall receive double credit toward meeting the renewable energy portfolio standard goals for energy electricity derived from sunlight or from onshore wind, and triple credit toward meeting the renewable energy portfolio standard goals for energy electricity derived from offshore wind.

D. To qualify for the Performance Incentive established in subsection C, the total electric energy sold by a utility to meet the RPS Goals shall be composed of the following amounts of electric energy from renewable or alternative energy sources, as adjusted for any sales volumes lost through operation of the

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59 customer choice provisions of subdivision A 3 or A 4 of § 56-577:

60 RPS Goal I: In calendar year 2010, 4 percent of total electric energy sold in the base year.

61 RPS Goal II: For calendar years 2011 through 2015, inclusive, an average of 4 percent of total
62 electric energy sold in the base year, and in calendar year 2016, 7 percent of total electric energy sold in
63 the base year.

64 RPS Goal III: For calendar years 2017 through 2021, inclusive, an average of 7 percent of total
65 electric energy sold in the base year, and in calendar year 2022, 12 percent of total electric energy sold
66 in the base year.

67 RPS Goal IV: For calendar years 2023 and 2024, inclusive, an average of 12 percent of total electric
68 energy sold in the base year, and in calendar year 2025, 15 percent of total electric energy sold in the
69 base year.

70 A utility may apply renewable *or alternative* energy sales achieved or renewable *or alternative*
71 energy certificates acquired during the periods covered by any such RPS Goal that are in excess of the
72 sales requirement for that RPS Goal to the sales requirements for any future RPS Goal.

73 E. A utility participating in such program shall have the right to recover all incremental costs
74 incurred for the purpose of such participation in such program, as accrued against income, through rate
75 adjustment clauses as provided in subdivisions A 5 and A 6 of § 56-585.1, including, but not limited to,
76 administrative costs, ancillary costs, capacity costs, costs of energy represented by certificates described
77 in subsection A, and, in the case of construction of renewable *or alternative* energy generation facilities,
78 allowance for funds used during construction until such time as an enhanced rate of return, as
79 determined pursuant to subdivision A 6 of § 56-585.1, on construction work in progress is included in
80 rates, projected construction work in progress, planning, development and construction costs, life-cycle
81 costs, and costs of infrastructure associated therewith, plus an enhanced rate of return, as determined
82 pursuant to subdivision A 6 of § 56-585.1. All incremental costs of the RPS program shall be allocated
83 to and recovered from the utility's customer classes based on the demand created by the class and within
84 the class based on energy used by the individual customer in the class, except that the incremental costs
85 of the RPS program shall not be allocated to or recovered from customers that are served within the
86 large industrial rate classes of the participating utilities and that are served at primary or transmission
87 voltage.

88 F. A utility participating in such program shall apply towards meeting its RPS Goals any renewable
89 *or alternative* energy from existing renewable *or alternative* energy sources owned by the participating
90 utility or purchased as allowed by contract at no additional cost to customers to the extent feasible. A
91 utility participating in such program shall not apply towards meeting its RPS Goals renewable *or*
92 *alternative* energy certificates attributable to any renewable *or alternative* energy generated at a
93 renewable *or alternative* energy generation source in operation as of July 1, 2007, that is operated by a
94 person that is served within a utility's large industrial rate class and that is served at primary or
95 transmission voltage. A participating utility shall be required to fulfill any remaining deficit needed to
96 fulfill its RPS Goals from new renewable *or alternative* energy supplies at reasonable cost and in a
97 prudent manner to be determined by the Commission at the time of approval of any application made
98 pursuant to subsection B. A participating utility may sell renewable *or alternative* energy certificates
99 produced at its own generation facilities located in the Commonwealth or, if located outside the
100 Commonwealth, owned by such utility and in operation as of January 1, 2010, or renewable *or*
101 *alternative* energy certificates acquired as part of a purchase power agreement, to another entity and
102 purchase lower cost renewable *or alternative* energy certificates and the net difference in price between
103 the renewable *or alternative* energy certificates shall be credited to customers. Utilities participating in
104 such program shall collectively, either through the installation of new generating facilities, through
105 retrofit of existing facilities or through purchases of electricity from new facilities located in Virginia,
106 use or cause to be used no more than a total of 1.5 million tons per year of green wood chips, bark,
107 sawdust, a tree or any portion of a tree which is used or can be used for lumber and pulp manufacturing
108 by facilities located in Virginia, towards meeting RPS goals, excluding such fuel used at electric
109 generating facilities using wood as fuel prior to January 1, 2007. A utility with an approved application
110 shall be allocated a portion of the 1.5 million tons per year in proportion to its share of the total electric
111 energy sold in the base year, as defined in subsection A, for all utilities participating in the RPS
112 program. A utility may use in meeting RPS goals, without limitation, the following sustainable biomass
113 and biomass based waste to energy resources: mill residue, except wood chips, sawdust and bark;
114 pre-commercial soft wood thinning; slash; logging and construction debris; brush; yard waste; shipping
115 crates; dunnage; non-merchantable waste paper; landscape or right-of-way tree trimmings; agricultural
116 and vineyard materials; grain; legumes; sugar; and gas produced from the anaerobic decomposition of
117 animal waste.

118 G. The Commission shall promulgate such rules and regulations as may be necessary to implement
119 the provisions of this section including a requirement that participants verify whether the RPS goals are
120 met in accordance with this section.

121 H. Each investor-owned incumbent electric utility shall report to the Commission annually by
122 November 1 on (i) its efforts, if any, to meet the RPS Goals, (ii) its overall generation of renewable *or*
123 *alternative* energy, and (iii) advances in renewable *or alternative energy* generation technology that
124 affect activities described in clauses (i) and (ii).