

Issue: Energy Efficiency

ENERGY EFFICIENCY IN VIRGINIA

Overview

Virginia residents have the 10th highest electricity bills in the nation. But Dominion Virginia Power claims that Virginia has very low electricity rates and boasts about those rates in the media and its lobbying activities. Why the contradiction?

First, the base rate that Dominion brags about comprises only 60% of residential bills. The utility is allowed to add additional charges on top of that base rate for things like recouping their fuel expenses and the costs incurred in building new power plants.

Second, Virginia has weak policies and programs regarding energy efficiency. If the state required utilities and consumers to follow practices that wasted less energy, then customers would use less electricity and would have lower bills. And with lower demand for electricity, the utility would not have to build new power plants, which would further reduce customer bills by reducing the need for additional charges.

Electric Bills and Base Rates

Residential electricity bills in Virginia are the 10th highest in the nation. Dominion residential customers also have higher bills than most of their neighbors in the region. In a comparison of residential bills among 20 peer utilities in the South (companies serving Alabama, West Virginia, North Carolina, South Carolina, Mississippi, Georgia, Florida, and Kentucky), Virginia's State Corporation Commission ranked those utilities, with #1 being the lowest residential bills and #20 being the highest residential bills. Dominion ranked 12th in 2016.

Higher bills are linked to Dominion's electricity rate structure. Before 2007 Dominion's base rate included the total cost of providing electricity service to its customers (all operating and construction costs). The one exception was fuel costs. However, in 2007, the state legislature allowed the utility to restructure its business model, so the utility separated costs for new capital projects from the base rate. Since 2007, the utility may impose additional charges called Rate Adjustment Clauses (RACs or "riders") over and above the base rate. RACs can include charges to cover the costs of building new power plants.

During the period from 2006 to 2016, residential bills increased by 30%. The single most influential factor driving this increase was RACs for new power plants. If energy efficiency policies and programs were implemented, the demand for electricity would drop, as would the need for new power plants.

Furthermore, Dominion's claim that its base rate is among the lowest in the region is inaccurate. A comparison of Dominion's base residential electricity rate with peer utilities in several other southern states shows that it is merely average. Virginia's State Corporation Commission issued a report comparing the residential electricity rates of 18 Southern utilities and ranked them in order, with 1 being the lowest rate and 18 being the highest rate. In 2006 Dominion ranked 7th out of 18. By 2015 Dominion's rates had increased significantly, making Dominion 9th out of 18.

In 2015, the Virginia General Assembly froze electric utility rates and suspended periodic reviews of those rates.

(SB1349—Anderson, Greason, Hugo, LeMunyon, Lingamfelter, Miller, and Yancey voted in favor of the freeze. Bob Marshall voted against it. Yost did not vote.)

In 2017, a bill to overturn the rate freeze and allow a review of the electric utility rates was killed in the Senate Commerce and Labor Committee.

Status of Energy Efficiency Policies

Virginia ranks 33rd out of 50 states on the effectiveness of their energy efficiency policies and programs. Similarly, Dominion ranks 30th out of 30 (dead last) of the largest investor-owned utilities in the country on energy efficiency savings.

Lack of Utility Regulation

Virginia lags far behind the rest of the nation because the Republican-controlled state legislature has not imposed regulations forcing Dominion to implement energy efficiency programs or meet energy savings targets. Virginia's energy efficiency policies are *voluntary* goals, not mandatory requirements.

As noted above, the Republican General Assembly passed legislation restructuring the utility base rates in 2007. Then-Democratic governor Tim Kaine approved the bill on the condition that the state legislature include a provision on energy conservation. That provision set a goal of reducing electricity consumption by 10% by 2022. In 2015 Democratic governor Terry McAuliffe revised that goal to 10% by 2020. But because those goals are not legally binding, the state is only *one-tenth* of the way to meeting that energy savings goal after ten years.

Until recently the state legislature would not even track the state's progress toward reaching the energy savings goal. In 2016, the House passed HB1174 to require an annual report, but the bill was killed in the Senate Commerce and Labor Committee. (Anderson, Greason, Hugo, LeMunyon, Lingamfelter, Marshall, Yancey, and Yost voted in favor of the report; Miller voted against it.) However, in 2017, the annual report requirement became law when the General Assembly passed SB990 & HB1465. (Again, eight of the Republican incumbents voted for the report; only Miller voted against it.)

Building Codes

Virginia's residential building code is essentially stuck at 2009 energy efficiency levels. In 2014, Virginia adopted the 2012 International Energy Conservation Code (IECC). Commercial buildings must comply with the 2012 IECC, but the state added so many weakening amendments for residential buildings that the residential building code more closely resembles the 2009 IECC than the 2012 version. The state is currently reviewing the 2015 IECC, including weakening amendments for the residential building code. If Virginia does not adopt the 2015 IECC without amendments, the state will continue to lag behind other states in energy efficiency.

Appliance Standards

Virginia has not set energy efficiency standards for appliances beyond those required by federal law.

CHP (Co-generation)

Virginia has not pursued policies to encourage energy savings or energy generation from CHP (combined heat and power, or "co-generation"). CHP methods capture the large quantities of heat generated by electric power plants that would otherwise be wasted and turns it into thermal energy (such as steam) that can be used for industrial processes, domestic hot water, or heating.

Policies that could promote Energy Efficiency in Virginia

The following policies that promote energy efficiency are used in other states to reduce energy waste and lower electricity bills.

- Mandatory energy efficiency resource standards (EERS)—Many states require utilities to achieve a certain level of annual energy savings. (As noted above, Virginia has *voluntary* energy savings goals, which are not being met.)
- Utility spending goals—Some states require utilities to spend a minimum amount of money, as a percentage of its overall revenue, implementing energy efficiency programs.
- Decoupling—Utilities have an incentive to sell more electricity because their profit depends on total sales. Energy efficiency programs conflict with this incentive because they lower energy consumption and reduce utility revenues. Decoupling is a way to separate utility profits from sales so that utilities do not have an incentive to sell more electricity. Instead, regulators review and adjust electric rates frequently to ensure that utility revenue is neither more nor less than what is needed to cover costs and a fair rate of return for investors.
- Modern cost-effectiveness tests—More energy efficiency programs are approved in regulatory proceedings when the tests to gauge the cost effectiveness of the

programs include a broader range of benefits, such as health and environmental factors.

- On-bill financing—Some states allow customers to pay back the utility over time on their energy bill for the cost of home energy efficiency improvements when they cannot afford to pay for those improvements up front.

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