

TO: VEPGA Membership

FROM: Joe Lerch, VEPGA membership

Below and attached is an update (with handouts) of the expected rate and fuel factor increases for VEPGA members provided by Christian & Barton.

VEPGA Members--

Next week we expect to distribute the final 2011 contract as well as dates and times for informational sessions hosted by Virginia Power to answer questions about the 2011 contract.

This email summarizes the rate impact of the 2011 contract and the fuel factor estimate released by Virginia Power yesterday.

Overall, the combined impact of the 2011 contract base rate increase on April 1st and the fuel factor increase on July 1st will be an increase of 16% on average for VEPGA rates as compared to current rates, which remain in effect until 3/31/11.

For usage effective April 1st, VEPGA rates will increase an average of 7% due to the new 2011 contract rates. More precise rate impacts using the 4/1/11 base rates and current fuel factor are shown on these attachments:

- (a) comparison of present and proposed revenue components & average rates as of 4/1/11 (Handout 1)
- (b) percentage impact by jurisdiction as of 4/1/11 and 7/1/11 (Handout 2)
- (c) rate changes shown for each rate schedule (Handout 4)

For usage effective July 1st, VEPGA rates are estimated to increase by an additional 9% on average due to a new fuel factor. Virginia Power has informed VEPGA that its best estimate at this time is that VEPGA's FY 2011-2012 fuel factor is likely to be around **3.391 cents/kWh**, as compared to VEPGA's current FY 2010-2011 fuel factor of 2.705 cents/kWh. When the estimated fuel factor increase on July 1st is added to the new 2011 contract rates effective April 1st, the combined impact is a rate increase on average of 16.3% as compared to current rates.

More precise rate impacts using the April 1st base rates and estimated FY 2011-2012 fuel factor are shown on these attachments, which show the percentage impact comparing current rates (effective through 3/31/11) to the current estimate for rates to be in effect on 7/1/11:

- (a) comparison of present and proposed revenue components & average rates as of 7/1/11 (Handout 3)
- (b) percentage impact by jurisdiction as of 4/1/11 and 7/1/11 (Handout 2)

As additional background on the fuel factor, we've attached an Excel spreadsheet updated to show a "VEPGA actual costs" FY 2010-2011 fuel factor and a "Virginia Power estimated" FY 2011-2012 fuel factor. The "VEPGA actual costs" FY 2010-2011 is VEPGA's assessment of what the current fuel factor would be if it were based on actual costs experienced to date: one of the reasons the FY 2011-2012 fuel factor will be so high is that it will include an under-recovery balance because the current FY 2010-2011 fuel factor of 2.705 cents/kWh was set too low: Virginia Power's actual fuel costs turned out to be much higher than the projected fuel costs used to set the FY 2010-2011 fuel factor. Actual costs were higher due in part to (1) a hotter than normal summer, (2) a colder than normal winter, and (3) the prior period factor being set too low to fully recover the balance owed for FY 2009-2010.

--Louis and Cliona

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