



MEMORANDUM

TO: VEPGA MEMBERS

FROM: Steve Sinclair, Chair of VEPGA

DATE: March 23, 2011

RE: Implementation of January 1, 2011 Virginia Power Contract

Dear VEPGA Members:

I am pleased to report that the final agreement has been executed between VEPGA and Virginia Power and is effective from January 1, 2011 through June 30, 2014, or, if VEPGA exercises early termination, through June 30, 2013 ("2011 Agreement"). Attached is a one page summary of the 2011 Agreement, which highlights key features of the agreement.

The following have been posted on the VEPGA website, www.vepga.org:

- executed copy of 2011 Agreement including
 - Master Agreement
 - Attachment A: Rates, Riders, and Terms & Conditions (T&C) for 1/1/11 to 3/31/11
 - Attachment B: Rates, Riders and T&C for 4/1/11 to 6/30/14
 - Attachment C: List of VEPGA members
 - Attachment D: List showing timing of rate riders
- blacklined documents showing how the following have been revised
 - 2007-2010 Master Agreement as compared to 2011 Master Agreement
 - 2007-2010 rate schedules as compared to 2011 Attachment B
 - 2007-2010 T&C as compared to 2011 Attachment B
- December 29, 2010 letter agreement regarding service issues
- March 4, 2011 email and attachments
 - comparing 2007-2010 revenues with revenues in effect as of 4/1/11
 - comparing 2007-2010 revenues with revenues in effect as of 7/1/11
 - percentage rate impact by jurisdiction as of 4/1/11 and 7/1/11
 - rate changes for each rate schedule
- Registration for these informational sessions hosted by Virginia Power to explain the 2011 Agreement:
 - May 3, 2011 in Norfolk
 - May 10, 2011 in Richmond
 - May 18, 2011 in Herndon

The remainder of this memorandum sets forth Q&As based on new provisions in the 2011 Agreement.



Why are there two sets of rate documents, Attachment A for 1/1/11 and Attachment B for 4/1/11?

Attachment A implements “temporary” provisions which essentially extend the 2007-2010 rates, terms, and conditions through the first quarter of 2011. The Attachment A rates have the 2011 rate increases for those three months (base rate increase, transmission increase, increases for two generation riders) **exactly offset** by a rider credit (Rider FTR) equal to the sum of the increases imposed by the riders for base rates, transmission, and the two generation facilities. This FTR credit allows VEPGA members to receive their share (totaling \$7.4 million) of payments that Virginia Power received for financial transmission rights from 2007 to 2009. (Note: to the extent the rider credits total less than \$7.4 million, the remainder—which is currently estimated to be about \$1 million—will be used to offset an anticipated fuel factor increase on July 1, 2011).

Attachment B implements the “long term” provisions of the 2011 Agreement, including revised rate schedules, revised Master Agreement, and revised Terms & Conditions (see chart on page 3 of this Q&A). From April 1, 2011 through the end of the contract term, Attachment B will govern. References in the remainder of these Q&A to “2011” rates, “2011” Terms & Conditions, etc. will refer to Attachment B.

Why does the March 4, 2011 email concerning rate impacts show an overall rate increase of 16% in 2011 (7% on April 1st plus an additional 9% on July 1st), when the December 30, 2010 email from VEPGA concerning the December 29, 2010 Agreement in Principle discussed a 7% increase?

The December 30, 2010 email discussed increases caused by the 2011 Agreement. The March 4, 2011 email discusses the 2011 Agreement increase (7%) **and** an estimated fuel factor increase (9%). The fuel factor increase was not a result of the 2011 Agreement. For many years, the VEPGA fuel factor has been based on a flow-through of actual costs, without mark-up, from Virginia Power.

Information on the estimated fuel factor increase was not available for distribution to VEPGA members until March 1st. As shown by the chart accompanying the March 4th email, the VEPGA fuel factor has been particularly volatile the last few years.

How do VEPGA rates differ from rates set by the SCC for other customers of Virginia Power?

VEPGA rates are approximately \$16 million per year less than what they would be if they were set at currently effective rates approved by the SCC. A large part of this savings, approximately \$10 million, is based on the methodology used to allocate transmission costs: Virginia Power uses the PJM “one CP” method, which allocates costs based on the amount of load during the annual system peak. Since VEPGA’s load peaks in September, rather than during the summer, it benefits from this methodology. The 2011 Agreement requires that Virginia Power continue using this method during the term of the agreement for Rider T.



What are the major differences among (a) the 2007-2010 Agreement, (b) Virginia Power's initial offer on July 22, 2010, and (c) the 2011 Agreement?

	2007-2010 Agreement	July 22, 2010 Virginia Power	2011 Agreement
Rate Increases in 2011			
Base rate increase	n/a	\$15.8 million	\$4.633 million
Transmission component in base rates	base rates include transmission	\$10.155 transmission component is moved out of base rates and into Rider T	\$10.155 transmission component is moved out of base rates and into Rider T
Rider T	n/a	\$14.682 million (net increase of \$4.527 million)	\$14.682 million ¹ (net increase of \$4.527 million)
Rider R (Bear Garden)	n/a	\$5.151 million	\$4.838 million ²
Rider S (Virginia City)	n/a	\$ 11.665 million	\$11.002 million ³
Other riders after approval by SCC	n/a	all except RPS and energy efficiency	all except RPS and energy efficiency
Total 2011 increase ⁴	n/a	\$37.098 million	\$25.0 million
Term			
Term	3.5 years	3.5 years	3.5 years or at VEPGA's option, 2.5 years
Rate Reductions			
One time FTR credit	n/a	n/a	\$7.4 million (via rider credits for 1 st quarter 2011)
Rider G (RECs)	\$5/MWh	\$5/MWh	\$2/MWh ⁵
Rate Design			
ROE for riders	n/a	12.3%	11.3%
Allocating rider costs to VEPGA	n/a	5.67% for generation riders	5.5% for generation riders 1 CP for Rider T
Allocating rider costs within VEPGA	n/a	energy	50% energy and 50% demand to assist in allocating charges fairly
Per kWh or per KW rider charges	n/a	per kWh	use kWh or KW charges as appropriate to allocate charges fairly
Other Features			
Riders set in advance	n/a	n/a	Virginia Power will set its fuel factor and all other riders on January 25 th , to be effective July 1 st .
LED schedule	n/a	n/a	a joint task force will develop an LED streetlight schedule
4:1 revenue credit	includes 1.246 ¢/kWh	excludes 1.246 ¢/kWh base fuel	excludes 1.246 ¢/kWh base fuel

¹ Rider T for 2011 is based on annualized amounts of \$4.527 million for 3 months and \$14.682 million for the next 9 months

² Rider R for 2011 is based on annualized amounts of \$3.347 million for 3 months and \$5.336 million for the next 9 months

³ Rider S for 2011 is based on annualized amounts of \$10.087 million for 3 months and \$11.307 million for the next 9 months

⁴ Riders R, S, and T are expected to increase during 2012, 2013, and 2014, and other riders may be added during those years

⁵ Rider G's lower rate is based on flexible pricing subject to change on 3 months notice. If VEPGA seeks to change to pricing that is fixed for one year, it must notify Virginia Power that it wants to make an election by December 31st and must make its election by February 1st.



	base fuel		
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Why does the 2011 contract contain three new rate riders in addition to the fuel rider?

Rate riders for transmission costs and for new generating units were created by the 2007 re-regulation legislation. The disadvantages of these types of rate riders are discussed in VEPGA's *Elected Official's Guide to Ensuring Fair Regulation for Electricity*.

This is the first VEPGA contract negotiated following implementation of the 2007 re-regulation legislation, and Virginia Power insisted that VEPGA members be subject to riders in the same way customers subject to SCC regulated rates are subject to rate riders. These riders, which are also called "rate adjustment clauses," allow a utility to automatically increase rates to recover specific costs without being subject to a comprehensive rate review that would balance all cost increases and decreases with total revenues in re-setting rates. This means that, during the course of the contract, VEPGA rates will continue to increase as Virginia Power updates its Rider R for the Bear Garden generator, its Rider S for the Virginia City coal plant, and its Rider T for its FERC-approved transmission rate. If the SCC approves additional riders for jurisdictional customers during the course of the VEPGA contract, then VEPGA rates will be increased by these riders, as well.

How will the new rate riders be implemented?

The new rate riders will resemble the existing fuel rider in that they will (a) track the corresponding riders under SCC regulated rates, (b) will be re-set once a year and subject to true-up for over-collections or under-collections, and (c) VEPGA will have the right to audit them to ensure they have been implemented properly. The riders will survive the termination of the contract, meaning that any over or under collection remaining when the contract terminates will be implemented.

The fuel rider is charged on a per kWh basis. The new riders will be charged on either a kWh basis or a kW basis, depending upon the rider and the applicable rate schedule.

If the SCC approves new riders for rates subject to its regulation, then Virginia Power will also have the right to charge VEPGA for similar riders. The only exception is that VEPGA will not be subject to riders for energy efficiency programs or riders for RPS programs.

Why are transmission costs 46% higher under Rider T?

Transmission costs under the 2011 Agreement are \$14.862 million, as compared to \$10.155 million under the 2007-2010 Agreement. This is also due to the 2007 re-regulation legislation, which changed from having transmission rates set by the SCC to having transmission rates based on a flow-through of FERC approved rates, which tend to be more generous than SCC rates.

Why does VEPGA have the option to terminate a year early, effective June 30, 2013?

The full term of the contract is January 1, 2010 through June 30, 2014, but VEPGA has an option to terminate the contract one year in advance of that on June 30, 2013. When Virginia Power made its final offer of \$25 million, it indicated that if VEPGA did not accept the offer, VEPGA would need to purchase electricity from the competitive market. This option does not offer savings at current market prices, but 2013



market prices may offer savings, and VEPGA wanted to preserve the option of going to the market in 2013 if that is the case.

What additional action by VEPGA will be necessary to implement the 2011 Agreement?

By December 31st in 2011 and, if applicable, in 2012 and 2013, VEPGA will need to notify Virginia Power that it would like to consider changing its pricing option under Rider G for RECs. Virginia Power would provide a quote by January 15th, and VEPGA would need to choose between a flexible pricing option or a fixed pricing option by February 1st.

Around January 25th in 2012, and, if applicable, 2013 and 2014, VEPGA would distribute the pricing for the fuel rider, Rider T, Rider R, Rider S (and any new riders) to be effective the following July 1st. Such information will help members prepare their fiscal year budgets but would need to be kept confidential and not shared with third parties outside VEPGA, unless otherwise required by law.

By December 31, 2012, VEPGA would need to inform Virginia Power if VEPGA intends to terminate the 2011 Agreement a year early on July 1, 2013. Prior to that timeframe, VEPGA will presumably have explored whether purchasing competitively from the market is an attractive option.

If activities undertaken pursuant to the December 29, 2010 process letter addressing service issues do not produce satisfactory results, then VEPGA would need to consider, well in advance of the contract termination date, what revisions to the 2011 Agreement are needed.

Sometime during the term of the 2011 Agreement, perhaps in the late 2011 or early 2012 timeframe, the VEPGA board will likely consider a proposal for an LED streetlight schedule.

Why has language in rate schedules and the T&C addressing an adjustment of 1.247¢/kWh in calculating the 4:1 revenue credit been deleted?

This has been eliminated because Virginia Power only agreed to this treatment as a "transition" measure during the term of the 2007-2010 Agreement. For the 2007-2010 Agreement, Virginia Power agreed to this adder because VEPGA members would be harmed by moving to a "pure" fuel factor (moving the 1.247¢/kWh that had been embedded in base rates into the fuel factor) at the same time they were losing the 6:1 revenue credit for streetlights.

Why has language in rate schedules and the T&C referring to the 6:1 revenue credit been deleted?

This has been eliminated because it only applied prior to July 1, 2007.

Why are there changes to the nuclear decommissioning amounts in the Master Agreement?

These vary depending upon the amount left to be recovered. These have historically been tracked separately for VEPGA and for MWAA, and that practice is continued in the Master Agreement.

Why has the use of contractor language been revised in the Master Agreement?

These are non-substantive revisions to correct a cross reference to the Terms & Conditions and to correct a reference to the title of Virginia Power personnel.



Why does the Master Agreement address accounting methodology?

This is based on calculations for amounts owed under the riders and is consistent with the methodology used for riders subject to SCC regulation.

How are the 2011 Terms and Conditions (T&C) different from the 2007-2010 Agreement?

- (1) definition of "delivery point" has been moved from Section II.A to Section I.A
- (2) definition of "electric service" has been supplemented to add "interconnection" to Section I.A (the same change is made in Section 2 of the Master Agreement): this more accurately describes Virginia Power's services
- (3) website address for Virginia Power's blue book has been updated
- (4) excess of four years: the definition has been moved to the beginning of Section III, and references to the excess of six years and to 1.247 cents/kWh have been deleted because they are no longer applicable
- (5) the circumstances when TERF applies have been clarified in Section III.H.2.c
- (6) references to the prime rate has been updated in Section III.I
- (7) parameters for funding by third parties have been added to Section III.N
- (8) references to SCC rules that no longer exist have been deleted in Section V.L.
- (9) language addressing vandalism of streetlights has been modified in Section IX. B
- (10) the streetlighting website description has added metal halide as a type of lamp
- (11) the net metering provisions in XIV have been simplified by incorporating the SCC rules by reference

How are the 2011 Rate Schedules different from the 2007-2010 Agreement?

- (1) distribution rates have increased
- (2) electricity supply rates have decreased for most schedules because the transmission component of these rates has been moved to Rider T
- (3) Schedule 151 addresses changes required due to the lack of availability of mercury vapor replacements.
- (4) Schedule 153 now refers to Schedules 150 and SMH, not 151, to reflect current practice based on lack of availability of mercury vapor replacements.
- (5) the rate design for Schedule 130, Schedule 131, and Schedule 132 has been revised to
 - a. ensure that the 2011 Agreement riders do not have a disproportionately large impact on high load factor users
 - b. better align these schedules with favorable aspects of rate design used for larger customers subject to SCC regulation using GS-3 and GS-4
- (6) Schedule SMH specifies that the minimum charge includes riders
- (7) Schedule SP specifies that the 2% and 5% discount under I.A applies to riders, but the half cent reduction under II.B is only given once: it is not given to riders



- (8) Schedule E for streetlighting patrol service is expanded to cover Schedule SMH and increases the hourly rate from \$37.75 to \$114.90 (the old rate has been in place for many years)
- (9) Rider G for REC purchases lowers the purchase price from \$5/MWh to \$2/MWh and permits pricing to change upon two months notice; the Master Agreement gives VEPGA the option, once a year, of changing from flexible to fixed pricing

Now that VEPGA has executed the 2011 Agreement on behalf of its members, what happens to side agreements that members have entered into under the 2007-2010 Agreement?

The 2011 Agreement states that it does NOT revise any side agreements addressing specific local government accounts, except to the extent that such agreements incorporate the current agreement. Issues concerning such side agreements are a matter of negotiation between Virginia Power and the individual local government.

Why are the net metering provisions in the 2011 Agreement less extensive than those in the 2007-2010 Agreement?

VEPGA members are entitled under the contract to net metering on the same terms and conditions as SCC jurisdictional customers, and these are now included by reference rather than spelling them out in the contract.

Why is Rate Schedule CSCM for curtailable service deleted?

No VEPGA member is using this schedule. It was offered to VEPGA members because it was an option for jurisdictional customers. Virginia Power has withdrawn this schedule because it no longer offers it to jurisdictional customers.

Are there aspects of the 2011 Agreement that are not new, but that may be underutilized?

Schedule 132 is available for up to 100 accounts, and there is room for about 30 more accounts. This schedule provides variable time pricing and offers savings to local governments that can avoid usage during peak load "A days." For example, Henrico County has been realizing savings after switching certain accounts to Schedule 132. Other local governments should consider whether they can take advantage of Schedule 132, which continues to be an option under the 2011 Agreement.

The 2011 Agreement also calls for Virginia Power, every 14 months, to conduct a rate comparison analysis showing what accounts would save if switched to other rate schedules. VEPGA member should take advantage of possible savings offered by switching rate schedules under the 2011 Agreement.

The Joint Action Committee meets on a regular basis and is the established venue for addressing systemic service issues.



If a local government has issues or concerns regarding the 2011 Agreement, whom should they contact?

Joe Lerch assists with administering VEPGA: his email address is jlerch@VML.ORG and his phone number is (804) 523-8530. He can direct VEPGA members to the VEPGA website, the chair of VEPGA's Joint Action Committee, the chairs of VEPGA's standing committees, or to VEPGA's counsel, as appropriate, concerning contract issues.

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